# BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI) INVESTIGATION—PART 3

## HEARING

BEFORE THE

## COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

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# BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI) INVESTIGATION—PART 3

FRIDAY, SEPTEMBER 27, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
*Washington, DC.*

The committee met, pursuant to call, at 9:40 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Kanjorski, Kennedy, LaRocco, Moran, Slattery, Wylie, McCandless, Riggs, and Armey.

Chairman GONZALEZ. The committee will come to order, please.

The Chair apologizes, but he was under the misapprehension that the starting time was 10 a.m., not 9:30 a.m., and I just didn't think of checking this morning, but almost there at the end of yesterday's hearing I was told it was 10 o'clock.

So I apologize very much for the delay.

I want to thank the witnesses above all for responding to our invitation.

Of course, this morning is the third in what will be a series of investigative hearings with respect to the so-called BCCI matter, the infiltration into our banking system.

There is no group more important to the safety and soundness of this Nation's banks than the thousands of directors who sit on the boards of these institutions.

I have said from the beginning 2 years ago and even years before I ever thought I would be a chairman that with the advent of the changes taking place since the late sixties, when the merger acts were being amended, the 1956 Merger Act amended in 1965, that instead of acquiring banks without going through the time-honored chartering process, you had the acquisition of one bank and the controlling interest of another through the hypothecation of banking stock.

That was one reason why you had the amendments to the Bank Merger Act, the Bank Holding Company Act, and the like; it was to get around the restrictions of the pre-World War laws, but imperceptibly everything else changed with it, including the role and particularly the perception of the directors themselves as to their role as directors.

What used to be called a set-apart trust, became a venture to make money.

Boards of directors, when they function properly, can be the number one bulwark against insider shenanigans and that is what the system was predicated on originally, corrupt management, illegal and unsafe banking practices.

Unfortunately, all too many directors bring to the table only one thing—a huge rubber stamp with one word "yes," for all management decisions.

As a matter of fact, the common thread to all the hearings that I have presided over has been, in the case of the S&L's, the role of the outside and inside directors. In most of the cases we had here, the bank managers were running the show and the directors were very casual, almost as if they were on the sideline.

Most of the BCCI/First American news stories have focused on the personalities of Clark Clifford and Robert Altman and what they knew, when they knew it, and who they told.

Today, we have before us another group of First American insiders, the board of directors.

They did not sit on the First American board by accident. They were handpicked by Mr. Clifford and Mr. Altman.

We are interested in what they knew about BCCI.

We are not interested from the standpoint of culpability, but I, for one, am particularly interested in knowing how the directors looked upon themselves in their role as members of the board of directors, and what it was that they had an opportunity to view or didn't have an opportunity to view.

We want to explore generally the role the directors took in the acquisition made by First American.

Most importantly, we need to know the relationships between the board and the bank's regulators—the Federal Reserve and the Office of the Comptroller of the Currency.

Did the regulators raise question with the directors about BCCI or Middle East investments in general or some of the others?

What was the flow of information between regulators and the board and how vigorous were the regulators in their dealings with the board of directors?

This committee has subpoenaed thousands of documents in the course of the investigation.

We are still combing through the paper as we plan additional hearings in the coming months with the final goal of discharging legislative responsibilities.

We are not a judicial body, an investigatory body, or a prosecutorial body, and we don't intend to even remotely partake of those activities.

Most of the questions remain unanswered and it is the obligation of this committee to fully explore the entire role of BCCI in this country.

Since we began our investigation of the Banca Nazionale del Lavoro about 2 years ago, which I consider a far more egregious case of the inadequacy of our laws and screening in the regulatory process with regard to foreign financial and banking activities in our country, Congress and the public focused some attention on the serious problems emerging from foreign banking interests in this Nation and the apathetic approach of our regulators to these problems.

I think that as in the case of the S&Ls, the Congress cannot absolve itself of responsibility here.

This committee in particular, should have held hearings—in fact, I don't think any later than the famous Hunt Commission report in 1969.

That was a clear signal with very specific recommendations, some of which we're barely coming around to now.

Pending before the House at the moment is a major revision of laws relating to foreign banking and these hearings may lead to additional amendments to that legislation, as we asked the regulators not long ago to join us on a priority basis.

We know that not only BCCI, BNL, and Lord only knows how many others, are infiltrating the thrift industry and banking industry through major investments in some Florida corporations like Centrust.

Of course, we need to look into that. We intend to.

We have had that on the books since last year.

We haven't completed the S&L investigation.

This committee has yet to issue a full report, and we haven't if we don't have as yet fully adduced all the evidentiary and documentary matters to have a full knowledge of what we would report and recommend.

The committee must also press forward in getting to the bottom of the Justice Department's handling of the BNL and BCCI fiascos.

The American people, I am convinced, expect this committee to go beyond the headlines, and this morning's hearing is a good example.

I have always felt that probably the most important force in our society is the news-disseminating agencies, both press as well as electronic. The real power is there, and we can't nor should we even try to remotely direct it, but if they are not on the ball and not interested or if they are not equipped and prepared to know what to look for, and if the Congress also doesn't have hearings, then we are in a bad fix as far as the American public is concerned.

So we intend to continue.

I am going to indulge my colleagues and the witnesses on something here.

I am going to quote: "Gambling is a business now where formerly it was a disreputable excitement. Legislative bribery and corruption were looked upon as antiquated misdemeanors. Governments and ministries no longer buy the raw material of legislation, at least not openly or with cash on hand.

"The same cannot be said of individuals and corporations, where they have of late not infrequently found the supply of legislation in the market even in excess of the demands.

"This strange conflict convulsed the money markets, occupied the courts, agitated legislators, and perplexed the country.

"For Americans, they involve many questions.

"They touch very nearly the foundation of common truth and honesty without which that health, the public opinion, cannot exist, which is the life's breath of our whole political system.

"A directorship in certain great corporations has come to be regarded as a situation in which to make a fortune, the possession of which is no longer dishonorable.

"The method of accumulation is both simple and safe.

"It consists in giving contracts to a trustee of one's own trustee as an individual, or in speculating in the property of one's set-apart trust, or in using the funds confided to one's charge as treasurer or otherwise, to gamble with the real owners of those funds for their own property and that with cards packed in advance at that.

"These proceedings are looked upon as hardly reprehensible, yet they strike at the very foundation of existing society.

"The theory of the representation, whether it's politics or business, is of the essence of modern development.

"Our whole system rests upon the sanctity of the fiduciary relations.

"Whoever betrays them, a director of a railroad, no less than a Member of Congress or the trustee of an orphan's asylum, is a common enemy of every man, woman and child who lives under representative Government.

"The unscrupulous director is far less entitled to mercy than the ordinary gambler, continuing as he does the character of a traitor with the acts of a thief.

"No acute moral sensibility on this point, however, has for some years troubled Wall Street, nor indeed the country at large."

Gentlemen, that was written in 1869 by Charles Francis Adams, Jr., one of our great golden age historians.

He was writing as a result of the hearings that the newly constituted Committee on Banking and Currency held as a result of the 1865 National Currency Act. The committee was chaired by James A. Garfield, later to be President. Two historians, Henry Adams and Charles Francis, were able to report and avoid the threats to their lives, then common in that day and time, and write in the publications and journals in order to inform the people. But they wrote on the basis of the hearings that James A. Garfield first had to hold after the Civil War.

So you can see how our country has been perplexed and convulsed. Today, gentlemen, it is not my intention to read a lecture or a sermon, but I do think that we have to emphasize and reemphasize and perhaps there is a legislative responsibility where we will have to go in and define.

It wasn't until just about a month ago that the Chairman of FDIC saw fit to say that he was going to announce new ethics rules.

Well, like in the case of Congress, the Constitution says we have to be 25 years of age by the time we get elected up here.

If we need a code of ethics, by that time it is too late.

If we don't know the difference between right and wrong and a trust, we never will and no code is going to govern us unless we do it ourselves.

I thank my colleagues for indulging in this lengthy presentation.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

Mr. WYLIE. Very interesting, Mr. Chairman, and fascinating.

I want to commend you for continuing the committee's investigation into the BCCI scandal.

I believe that the witnesses before us today can provide very useful information on BCCI's role with respect to the board and management of First American.

As we discussed at earlier hearings, directors and management at the institution have a duty to investigate elements of misconduct of an institution and I believe that we need to learn today how the gentlemen before us have fulfilled those duties and responsibilities.

I would give a special welcome to our former House colleague, Senator Mathias, who will appear before us, and we will hear his testimony. It would seem that his actions, while he was on the board of First American, led to the removal of Mr. Clifford and Mr. Altman from the bank, and it appears that Senator Mathias acted swiftly and decisively when wrongdoing was uncovered there. I look forward to hearing your rendition, Senator, as to how and why Mr. Clifford and Mr. Altman were removed from First American's board.

Mr. Chairman, I believe that the committee has gone a long way in its investigation of First American and you have truly let the chips fall where they may. You and your staff are to be commended for that, and I would like to give my strong continuing support to the committee's investigation and to delving deeper into this scandal, and you have indicated that you are going to do that. I still fear that the committee has only scratched the surface of BCCI's activities in the United States.

For example, representatives of the Federal Reserve have told me that the two most crucial sets of documents for the committee to review are the Clifford & Warnke privileged documents, and the documents that are to be found in the BCCI Washington office. To date, the Banking Committee staff has not had access to those documents. While Mr. Clifford and Mr. Altman promised production of the law firm documents to the committee, they have not been forthcoming and these records, I think, are crucial to the committee's understanding of the BCCI affair and must be thoroughly reviewed by our committee staff.

Moreover, the testimony heard so far raises as many questions as answers to me. I think the committee needs to hear a wide variety of additional witnesses in order to complete our understanding of BCCI and its relationship with First American.

There are several classes of witnesses I would encourage the committee to call. First, I believe there are several former employees of First American and BCCI who would be willing to cooperate with this committee. They should have inside knowledge of BCCI's U.S. affairs and its relationship.

Second, other regulators and Government officials should be brought before this committee. I don't believe that the Federal Reserve was the only agency responsible for BCCI's activity in this country and we should hear from other responsible Government officials.

Third, I believe that State regulators should be called to testify. They played a key role in the regulation of foreign banks in this country and still do.

Fourth, I believe that we need to call some of the financial kingpins who BCCI dealt with in this country, and I am pleased to hear you say, Mr. Chairman, that we will hear from Centrust officials. Individuals such as Bert Lance, Ghaith Pharaon, and David Paul should not escape this committee's inquiry.

Finally, I believe that the committee must determine whether BCCI exercised improper political influence in this country.

BCCI's State political activities have been well documented in Georgia and questions still exist concerning its oversized Washington office. I would like to note that Federal court pleadings filed in early August against three of the witnesses before us contain the statement that BCCI made or arranged for loans by First American to prominent officials in amounts and on generous terms not otherwise justified. We ought to look into that. The committee ought to get to the bottom of a statement like that to see if there is any smoke or fire. If there was political wrongdoing, then it is our duty to shed some light on those activities regardless of party affiliation.

Thank you again, Mr. Chairman, for holding these hearings.

I look forward to hearing our witnesses today and continuing our work together on this very important investigation.

The CHAIRMAN. I want to acknowledge your great cooperation and help.

As a matter of fact, several months ago, you had suggested that we look into BCCI at that time and only the fact that we have had some immediate, urgent actions facing us—we had the RTC funding, now we have the banking bill—but even at that, we are still having hearings on bank mergers as we have had this week and we are going to continue.

Some of the documents you referred to—I want to remind you that the Federal Reserve Board is conducting its own investigation, and they have possession of some documents, and the district attorney in Manhattan has also been there commanding some of the documents.

But we don't intend to be deprived of anything this committee needs and if necessary we will insist the subpoenas be honored.

Mr. WYLIE. I am not suggesting at all that we haven't been very diligent in our investigation of BCCI and other agencies, other financial institutions, Mr. Chairman.

I know that we have indeed had a full platter of work in the session.

The CHAIRMAN. I think the gentleman has a right to be concerned.

Mr. Annunzio.

Mr. ANNUNZIO. Thank you, Mr. Chairman.

You mentioned about the RTC facing us. As you know, we still have the RTC problem facing the committee. Mr. Chairman, I want to congratulate you once again for your relentless effort to seek the truth in this investigation. You have been fair and honorable to the witnesses, fair to the committee.

In the end, I am hopeful that we will get some measure of the truth to take to the American people, and that is primarily due to your outstanding effort that you have been putting forth.

I don't have a prepared statement, but I want to say to the distinguished panel that is present this morning, our biggest problem,

that I have found, and the country is that we have too many directors on these boards that don't ask any questions.

If they had asked questions, we wouldn't be here today, because some of the problems could be resolved. Another thing that is happening is that we have members of the board who abused their positions for gain. And that is another problem that the American people don't understand, as to the whys and wherefores. I think this is today, you are all directors—you should tell us how much money you were paid as a director.

You should tell us your duties, what did you do for that money that you received as a director? And you should also try to make the American people understand what your job is.

You know, I have found, when I go home to my district, "Congressman, you are doing a good job on the specifics, but very few directors are going to jail."

What has happened to our Justice Department? We have laws, we have regulations. We have means of dealing with directors, but it seems that many years, that that particular problem has not been examined closely, has not been pursued by the Justice Department.

You are here this morning, and I am looking forward to your testimony. Please try to tell us what you do, what your duties are so the American people can hear it on television, so the American people can read it in our reports. I would like to know about the duty of a director. They would like to know how much money he makes, what does he do with the contacts, and so forth.

Mr. Chairman, I associate myself with your remarks, and I congratulate you.

The CHAIRMAN. Thank you very much.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

I have a couple of thoughts I would like to leave with our panel. Having followed this rather closely, it appears to me that there are areas here in which we need to take a look at possible legislative remedies.

We have a group of outstanding national personalities who are gathered together for the purpose of creating a financial institution which in itself creates an atmosphere on the part of the regulators that may or may not represent what it is that is in the best interest of our financial institutions.

And as a result of that concentration of years and reflections on our society, the regulators make certain assumptions that, because of their personalities, there is maybe not the need to do on a daily, weekly, or in the preliminary period what would normally be done if we did not have the type of people that are involved here.

Taking a little liberty, Mr. Chairman, back during World War II, a gunnery sergeant in a boot camp told me, and he had just gotten out of the hospital, "Assume nothing, and you will never get your rear ends shot off." That was excellent advice, but I am afraid that in the case of this subject, possibly some of our regulators assumed many things that they should not have assumed during the execution and daily activities relating to their responsibility of oversight.

I must say, in candidness, that in listening to Mr. Clifford subsequently, and reading what followed, that particular phrase that I

just recently referred to must some way, somehow enter into the relationship that the board of directors had and the executive branch of that organization, assuming again that because they had gathered together that everything was all right and that they didn't have an individual or collective responsibility to not only the institution that they represented as a board of directors, but to the regulatory system and the United States and the financial institutions.

If there is anything that anybody would like to say in terms of a rebuttal on the panel, I am more than interested in hearing it. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman. Thank you again for holding this hearing. I think going back a couple of years now, you have been insistent on pursuing the responsibility of the individuals on boards of directors, and viewing that as a central problem to much of the banking ills and savings and loan ills that have beset the country, and I want to thank you for continuing your efforts in that regard and for gaining this committee and the country a better understanding of the responsibilities of boards of directors of these institutions.

I have looked through the testimony that the witnesses before us have provided the committee, and it would appear in their testimony that they very much distance themselves from understanding the relationship between BCCI and First American.

I think it is obviously going to be up to individual members of this panel to determine their feelings on that issue. But I think we ought to be concerned, as has been brought to my attention over the course of the last week or two of the concern on behalf of many of the depositors.

I wonder whether or not that ought to be addressed even briefly by this panel, that there are still a great many depositors in this area that have money in this institution who are extremely worried about those funds.

I, as late as last evening, had a labor union that had deposits in this institution very concerned about their deposits, and individuals as well. I am sure Mr. Moran, representing this area, probably has had many calls as well. It seems that we ought to be showing some concern and reminding those individuals out there that they still are covered up to $100,000, that this has been a relatively healthy institution, it has gotten into some problems in the real estate industry, but it hasn't cost the taxpayers a penny.

I want to make sure that as we pursue the role of the directors, that we also don't create a situation having people so scared that there will be a run on the bank or difficulties of that manner.

I want to thank you for holding these hearings, and for pursuing the concerns that we all have.

I also want to thank the witnesses and make sure that we reassure the depositors of the facts, that their deposits will be covered as well.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Armey.

Mr. ARMEY. No, thank you.

The CHAIRMAN. Mr. LaRocco.

Mr. LAROCCO. Thank you, Mr. Chairman.

I want to add to the voices of my colleagues, and thank you for holding these hearings. I think that our central objective today must be to learn whether U.S. State and Federal banking regulators have appropriate authority to monitor and control foreign banks' relationships with American banks, and to learn whether this has been used appropriately and aggressively in this case.

I know the prosecutors are looking into what happened in the past. As legislators, our job is to figure out what to do in the future. I think that we especially need to determine whether the actions we took in H.R. 6, at the request of Chairman Gonzalez and the Federal Reserve regarding foreign banking, were sufficient. If they were not, we need to find the best ways to strengthen them.

We need to determine not only what First American officials knew, and whether they knew it, but also what our regulators knew and when they knew it. We need to look at the larger question of whether U.S. regulators can adequately cope with foreign-owned banks operating in the United States when information from overseas is hard to verify, and extradition treaties are often inadequate to allow foreign violators to be penalized.

I am sure that members will try to answer these questions as this week's hearings progress.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Riggs.

Mr. RIGGS. Good morning, Mr. Chairman, and thank you for the opportunity. I just would like to greet our distinguished panelists this morning, and recollect back to the first hearing that this committee had on the big First American Bankshares relationship or controversy, and recall that Mr. Clifford that day, under repeated questioning from this panel, insisted that in characterizing the board at First American Bankshares as—insisted that it was an activist, hands-on type of board, not a passive caretaker board, that it was a board very much in control of and aware of day-to-day operations and management decisions at First American.

So, I hope in that vein that we will be able to probe somewhat today as to exactly whether or not this is an activist, hands-on board as described by Mr. Clifford, and also at the same time determine the level of your awareness as to the links or contacts between BCCI and First American, whether or not—obviously, you have disavowed any direct knowledge of those links in your written statements, but whether or not, frankly, circumstances should have suggested more concern than was demonstrated by the board, given your fiduciary obligations as board members.

I appreciate the opportunity to pursue that line of questioning this morning, and appreciate your availability.

The CHAIRMAN. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

Mr. Chairman, particularly because of the fact that many of the administrators and depositors of First American Banks in the Washington area are my constituents, I am especially grateful for the fact that you have shown the kind of diligent scrutiny of the BCCI scandal that you have. I know that those depositors are ap-

preciative of what this committee has done, and Mr. Annunzio's subcommittee, as well.

But it is terribly important that we separate the scandalous activity on the part of BCCI from the activities of First American Bank. The drug running and the money laundering and the fraudulent activity that clearly has gone on on the part of BCCI has not occurred with any of First American Bank's deposits. The fact is that First American Bank has operated in as responsible a manner as the other banks in this area.

We clearly need to get at the ways in which BCCI was able to acquire this kind of shadow ownership and control of First American Bank, but that does not mean that they used that control to commit any kind of illicit activity.

So it is terribly important—and I know you agree with me, Mr. Chairman—that the depositors in First American Bank in Virginia, DC, and Maryland know that their money is safe and secure and being properly accounted for. So I would hope, in addition to getting at the bottom of what has occurred, and we cannot allow ever to occur again, we also make clear that distinction.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Moran.

Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman. I too would like to join in recognizing the vigor that you have pursued this matter with, Mr. Chairman. I think all of my colleagues on both sides of the political aisle have been impressed by your willingness to vigorously pursue the truth, regardless of where it leads us; and I commend you for that.

Mr. Chairman, the reason I think this matter is so important to the people of this country is because it is critical at this time when we are considering major bank reform legislation that we get a handle on exactly what our regulatory agencies can do to protect the citizens of this country and to assure that our banking industry is run in a safe, sound, honest manner.

I think that this case raises serious questions about what has gone on within the various regulatory agencies of this particular administration. I am particularly interested, and I applaud Mr. Wylie's observation that we should call before this committee other agencies—particularly the CIA. I am curious as to why the CIA—and I haven't heard anybody respond adequately to this point—why the CIA was apparently knowledgeable of certain BCCI activities, illicit activities in this country and around the world, and for whatever reason, neglected to notify the Department of Justice, the Federal Reserve, the Department of the Treasury. I don't understand why this happened.

Why didn't existing government agencies share the information that they had with you folks as directors of the bank, even, and inquire as to what was going on?

So I think that it is very important for us to get a handle on just what our regulatory agencies can realistically be expected to do, especially with regard to foreign-owned financial institutions.

So those are the areas that I would like to see some focus on. Again, Mr. Chairman, I thank you for continuing your pursuit of the truth in this matter.

And I want to also associate myself with the remarks made by my friend from Virginia and my friend from Massachusetts in indicating that the depositors at First American in this area and around the country in their various depositor facilities want to know that their deposits are safe. I hope that this hearing and the focus on this BCCI problem does not create panic out there with the depositors in First American, and I think it is important for us to separate the banking activities of BCCI from First American. It is very important that we make that distinction.

So, Mr. Chairman, I am anxious to hear from the witnesses today; and I am particularly interested also in their observation of who hired Mr. Clifford and Mr. Altman and who could have fired Mr. Clifford and Mr. Altman. I am also curious about what they think about all this business, especially with respect to the loans. I look forward to your testimony.

Thank you again, Mr. Chairman.

The CHAIRMAN. Mr. Slattery, if you will yield, the gentleman will recall that this committee joined me in voting for subpoenas, including documents from the CIA. It has created quite an upheaval over there in those labyrinthine facilities.

Also, we have worked with the Intelligence Committee and Chairman McCurdy, but at this point, we don't know yet—the staffs have been meeting diligently with CIA to make sure that the documents we have subpoenaed are all within the proper scope of the congressional right to know.

But I wanted to tell you that, of course——

Mr. SLATTERY. Mr. Chairman, if I might respond, I am aware of what you just observed. The only point that I was making is that, as we sit here today, it is my opinion that we don't have a satisfactory explanation, shall we say, from the CIA; and this is a matter, frankly, that I believe that the President of the United States should weigh into. He has mysteriously sort of disappeared on this question.

The President of the United States is responsible for what happens at the CIA; it reports to him. The Department of Justice and the Department of the Treasury report to the President. These are matters that I believe the White House ought to get involved in, and offer an explanation to the American public as to what happened within the executive branch of government.

Mr. Chairman, I appreciate your vigorous pursuit of the truth.

The CHAIRMAN. I had better not pursue that, because I think we are going into other areas that I think we would be exceeding—all I can tell you is that with respect to that, we are harmoniously working with the Committee on Intelligence.

But anyway, gentlemen, the committee is operating under House rules 10 and 11, in its investigative capacity, that is, for legislative purposes. So I am going to ask you to stand and raise your right hands.

[Witnesses sworn.]

The CHAIRMAN. Thank you.

Senator, let me say that I never dreamed you had gone from the political to the banking world until I read your name in the newspaper not too long ago. But I recall with a great deal of nostalgia and pleasure when we first met. You may have forgotten.

I was newly arrived in the Congress, and we met at the old gym in the Longworth Building, and I would see you almost every day. You would come in in a big hurry and, now and then, we would converse; and you were rushing back to your district in Maryland.

Then, subsequent to that, of course, you successfully ran and got elected to the U.S. Senate. So it is a pleasure to see you. We want you to know that, first, we are grateful to you for your cooperation. We sent an invitation letter to you, as well as the other gentlemen; and we are very pleased and thankful that you responded in a harmonious and cooperative way. We do take note of that.

If there is no objection from the other panelists we will recognize you first, if you have a statement, Senator.

## STATEMENT OF CHARLES McC. MATHIAS, JR., DIRECTOR, FIRST AMERICAN BANKSHARES

Mr. MATHIAS. Thank you very much, Mr. Chairman and members of the committee.

Mr. Chairman, just let me say, I remember those early days very well.

The CHAIRMAN. I don't know if you were here by the time we got the new gym in the Rayburn Building, but you will remember the old gym, a small room. I think it could fit in a corner over there.

I always thought—in fact, I respected very much your fitness and your desire to stay that way. I am delighted to see that you look very good. But I don't know if you ever enjoyed the benefit of the House gym after the Rayburn Building was open.

So, anyway, I am glad you do remember.

Mr. MORAN. Mr. Chairman, Senator Mathias suggested that maybe a few less of those Senate receptions has an effect on his health, too, why he looks so healthy.

Mr. MATHIAS. It looks to me as if the chairman is doing pretty well himself.

Mr. Chairman, I currently serve as a member of the board of directors at First American Bankshares, and I am chairman of a special oversight committee of the board, the chartering activities of which I will describe in a few minutes.

I am also a member of the board of directors of First American Bank of Maryland, and it is in my capacity as a member of the board of Bankshares, as well as the chairman of the Special Oversight Committee of Bankshares, that I appear before the committee today.

And if I may, Mr. Chairman, I would like to introduce the others who are with me: Jack Beddow, Paul Adams, Vincent Scoffone, and Charles Stauffacher.

Jack Beddow on my right is the chief executive officer and a director of the First American Bankshares.

Paul Adams is the chief operating officer and also a director of Bankshares.

Vince Scoffone is senior vice president and treasurer, and Charles Stauffacher served as an outside director of First American Bankshares since February 1989.

I appear today at your invitation, and I welcome this opportunity to respond with facts about First American to some of the intense

publicity concerning the Bank of Credit and Commerce International, which is commonly called BCCI.

We hope to make it clear to you and to the public that First American's banks have not committed any wrongful or improper banking practices and that their operations are not in any way controlled by BCCI.

We appear today on behalf of what is the leading financial institution in the Washington area and its many dedicated and professional officers, directors, and employees.

Our banks are fortunate to serve several outstanding communities up and down the eastern seaboard of this country and to participate especially in the growth and development that has occurred in the greater Washington area.

Having had, as the chairman recalls, the privilege of representing the people of Maryland in the Congress, I take a particular interest in First American's service to the people of Maryland.

I would pause just to comment that First American is really a part of American banking history because it is one of the oldest American bank holding companies.

It was originally incorporated as the Morris Plan Corp. of America, and it was famous nationwide.

In another period with different ownership, it traded under the name of Financial General. Of late, the significant accomplishments of the employees of this long established institution on behalf of the communities that it serves have been completely ignored.

And instead, the institution has been broadly and unfairly maligned as a result of events that are external to it and beyond the control or influence of the people who have served the bank so loyally.

My own involvement with First American began in 1987 after my service in the Senate had ended. Clark Clifford, whom I have known for many years, invited me to join the board of First American Bankshares and First American Bank of Maryland.

I was willing to accept this responsibility in part because I viewed this as a way to continue to be involved with the community that I formerly represented.

Although I intend to speak at greater length about my role as a director of First American Bankshares, I would like to speak first about my experience with the First American Bank of Maryland because it involved the direct oversight of banking operations and I think addresses some of the interests expressed by committee members already this morning.

My experience at First American Bank of Maryland, I think, is also very germane to the issue of whether BCCI controlled First American, a question on which there has been considerable speculation and investigation.

First American Bank of Maryland is one of the seven subsidiary banks that serves thousands of communities from New York to Florida.

In total, these banks employ about 5,500 people. Some of these employees, for instance, like Jack Beddow, who is here today, worked for First American before it was First American.

Changes of name, changes of corporate ownership, haven't interrupted the consistent service of these people. The primary business of this institution has always been retail, local banking.

The Maryland bank, for instance, has over 100,000 deposit accounts and about 30,000 loan accounts of various types.

The Maryland bank has its own independent board composed of conscientious directors, many of whom I have been fortunate to know for years.

In my experience, the officers and directors of First American Bank of Maryland have managed their own operations and have made their own decisions with very little or no input from above.

Paul Adams, who is here today, was the President of the Maryland bank from 1982 to 1989, when he moved up to become the Chief Financial officer of First American Bankshares.

Paul did a masterful job of leading the bank in Maryland. When Paul became president of the Maryland bank in 1982, it was a marginally profitable bank. Today, the First American Bank of Maryland is a well capitalized bank with $1.5 billion in assets, which is nearly six times the size when Paul took it over.

The bank accomplished this feat by participating in and by fostering the dramatic growth that has occurred in the northern and eastern parameters of the Washington metropolitan area and along the industrial corridor that connects Washington to Baltimore.

I think it is fair to say that the Maryland bank has become an integral part of these communities. But the Maryland bank is not alone in this accomplishment.

Each of the subsidiary banks has independent, dedicated leadership that has served its respective communities well.

Our efforts have always been aimed principally at the retail level, serving many small depositors and customers.

The First American banks together have close to 1 million deposit accounts and half a million outstanding loans. Our commitment to the communities that we serve is particularly evident in the lending and investment decisions made by the First American Bank.

You will recall, Mr. Chairman, that in the late 1970's, the Congress passed what I viewed as long needed legislation, entitled the Community Reinvestment Act. I am sure the chairman remembers that very well.

As you know, this legislation requires banks to meet certain minimum levels of investment in low-to-moderate income housing projects and in loans to low-or-moderate income individuals within the bank's community.

First American has been a leader in achieving the goals of this legislation. Acting, again, through the subsidiary banks, First American has reinvested at every economic level of the communities it serves.

For instance, as of August 30, 1990, the three subsidiary banks in the greater Washington area alone have invested nearly $1.4 billion in CRA qualified projects.

I think it is this kind of activity, not involvement in BCCI's wrongdoing, that characterizes First American's operations.

Those of us sitting here who are familiar with the real day-to-day operations of First American's banks, as well as the thousands of

employees who have devoted their professional lives to this work, know that the allegations that BCCI controlled the operations of First American banks are extremely unfair and injurious to the good name of our banks and to their employees.

Indeed, we find it particularly upsetting that speculation concerning BCCI operational control of First American continues to be offered when William Taylor, the Staff Director of the Federal Reserves Division of Banking Supervision and Regulations, just this Tuesday again confirmed in testimony to the Senate that in spite of exhaustive investigative effort, the Federal Reserve has been unable to find any exercise of operational control by BCCI over First American.

Now, all of the efforts of these subsidiary banks are tied together through the parent holding company, which is First American Bankshares.

Unlike many bank holding companies, First American employs a significant operational staff of approximately 300 people. Their respective functions relate generally to functions at the subsidiary banks.

For instance, Bankshares has its own separate loan review function, the purpose of which is to review the lending activity at each of the subsidiaries to assure that company loan policy is being followed and that loans are properly risk rated.

Similarly, Bankshares has its own audit staff which audits the activities of all of the banks. It is my judgment that First American Bankshares, like the subsidiary banks, is staffed by prudent and attentive officers and directors.

When I joined the board of Bankshares in 1987, it had already grown to be the largest bank holding company in the Washington area with total assets in excess of $9 billion, which is up from $2.6 billion in 1982.

On a consolidated basis, the performance of our banks during my first 3½ years from 1987 through mid-1990 was solid and profitable.

During this period, the exceptional performance of the Virginia, Washington, and Maryland banks was offset to some extent by what I have to characterize as disappointing earnings results from the New York and the Georgia operations.

It was our understanding, however, that First American's investment in its New York and Georgia banks reflected strategic decisions that were favored by our parent holding company, Credit and Commerce American Holdings, commonly called CCAH, and its shareholders.

Moreover, First American's overall asset quality during this period remained exceptionally high. At the beginning of 1990, Bankshares had $11 billion in assets, and it ranked among the 50 largest commercial banks in the United States.

At the end of the first quarter of 1990, all of the indicators suggested that the bank was well positioned for the future.

And this, Mr. Chairman, was not just the opinion of First American's directors; it was the opinion of the Federal Reserve Board.

In particular, the examiners at the Federal Reserve informed the board of directors in February 1990 that, although operating income had declined slightly, total assets had increased 15.8 per-

cent since the prior year's inspection, and that the net interest margin of the company was in line with its peer group banks.

The Federal Reserve concluded that First American Bankshares was fundamentally sound, with some modest weaknesses that were correctable in the normal course of business.

Now as we all know, since that time, the country as a whole and the Washington region in particular have experienced a serious recession, which has been especially hard on real estate values in the Washington area.

By the end of 1990, First American had realized significant losses for the year from its banking operations for the first time in its history. There has been much debate and commentary on the cause of this recession, on the overall health of our economy, and on the consequences to the banking system of past changes in Federal legislation.

I think these issues are beyond the scope of my testimony today. But I do wish to stress that the losses experienced in this past year by First American are due largely to the external forces and events which could be neither controlled, nor for that matter, very easily anticipated by First American's managers or directors.

Fortunately, First American, unlike many other financial institutions, has a solid capital base that will help it to endure the economic adversity currently faced by virtually all banks. Now, the challenges that the past year has brought to First American have, of course, not been limited to the economic problems that have affected the entire industry, that have affected all banks.

Beginning in May 1990, the ownership of First American's parent became a subject of considerable media and congressional attention. As I indicated earlier, when I left the Senate at the end of 1986, Mr. Clifford asked me to become a member only of the board of the Maryland Bank and the Bankshares board.

He did not invite me to become a member of any of the senior holding companies above Bankshares. I have attached as an exhibit to this testimony an organizational chart that illustrates the relationship of First American Bankshares to its senior holding companies and to its subsidiary banks.

I hope that members of the committee, Mr. Chairman, have that chart available, because I think it is a valuable illustration of that relationship.

The CHAIRMAN. We can include that in the record, if you wish, sir.

Mr. MATHIAS. Yes, Mr. Chairman.

The CHAIRMAN. Hearing no objection, it is so ordered.

[The information referred to can be found in the appendix.]

Mr. MATHIAS. I provide it because I think it is important to have an understanding of the organizational hierarchy and the accompanying allocation of authority and responsibility which is essential for an intelligent discussion of the concern of this committee.

As you know, First American Bankshares is a privately-owned bank holding company. And as this exhibit indicates, the stock of First American Bankshares is 100-percent owned by First American Corp.

Mr. MORAN. Mr. Chairman, could we get a copy of that, perhaps the staff might Xerox it? I don't think it is in the material that we were given.

The CHAIRMAN. No, it is not in the material, but we have put it in the record. If the gentleman——

Mr. MORAN. I understand. But if Senator Mathias is going to be pointing to it, it might be useful to follow it.

Thank you, Mr. Chairman.

Excuse me for the interruption.

Mr. MATHIAS. To repeat, Mr. Chairman, the stock of First American Bankshares is 100-percent owned by First American Corp., which in turn is 100-percent owned by Credit and Commerce American Investment, which is sometimes referred to as CCAI, and that in turn is 100-percent owned by Credit and Commerce American Holdings, or CCAH. And it is this ultimate parent, CCAH, which in turn is owned by the individual shareholders.

Until recently, the quarterly meetings of Bankshares that I attended focused almost exclusively on the financial results of the subsidiary banks.

There was no discussion of the operations of the senior holding companies. Nor, until recently, was there discussion of shareholder satisfaction with Bankshares' performance.

I can recall one conversation with Clark Clifford, prior to accepting a position on the Bankshares board, during which I had inquired about the shareholders. He responded that they were the most wonderful people.

He said they were very wealthy individuals who had entrusted the operation of First American completely to him, who never interfered in his management of the institution, and who were in the investment for the long term. And he said that their attitude was so firm on this point that they did not even seek dividends, but instead wanted the earnings reinvested to expand the bank.

I also understood, generally, that the shareholders sought some degree of anonymity, and that Mr. Clifford and Mr. Altman would and, in fact, did control communications with them.

So accordingly, until very recently as I will soon describe, I had no contact with any of the shareholders. Communications with the shareholders were conducted exclusively at the CCAH level, which you can see on the chart, under the direction of Messrs. Clifford and Altman.

I understand that the corporate records of CCAH were maintained at the law firm of Clifford and Warnke, and were not kept in First American offices.

It is, of course, the alleged relationship between this senior holding company, CCAH, and BCCI that has been the subject of so much attention which has unfairly affected the First American banks.

Now it was in May 1990 that the ownership of CCAH became the subject of renewed interest. *Regardies* magazine featured on its cover a picture of Sheikh Zayed, apparently to suggest the author's view that the bank was improperly owned by overseas interests.

I was aware that First American's parent corporation was owned by Middle Eastern investors, but I was not then, and I am not now, opposed to foreign ownership of U.S. corporations, whether they be

financial institutions or other businesses, because free movement of capital is essential to the health of our system.

In my view, regulation discriminating against foreign capital would be morally offensive and economically disastrous. The fact of foreign investment in First American's parent corporation was not troubling to me as a director, or for that matter as a citizen. But the article did, however, raise certain questions that I and others at First American viewed very seriously concerning the possible involvement of First American in BCCI money laundering activity and the possible influence of BCCI over First American's lending decisions.

There were some prior allegations of a connection between BCCI and First American that surfaced following the indictment of BCCI and certain of its officers on charges of money laundering in October 1988. And in a letter to the board of directors, the president and chief executive officer and the employees of First American, Clark Clifford denied that BCCI had ever had any financial interest of any kind in First American or that First American had ever had a financial interest of any kind in BCCI.

Several months later, the Federal Reserve appeared to confirm Mr. Clifford's statement of that relationship between BCCI, the individual shareholders and First American.

I would note, Mr. Chairman, that it was at the First American board of directors' meeting that was held in February 1989, that officials of the Federal Reserve reported to the board that the staff of the Federal Reserve had completed a special review of the relationships between BCCI and First American in connection with the application by First American to acquire Bank of Escambia.

The investigation, which was discussed with this committee, I believe, in recent testimony by officials from the Federal Reserve, concluded that there was no evidence of BCCI ownership or control of First American, inconsistent with the representation that had been made of the original acquisition, and that First American's corresponding banking relationships with BCCI were conducted in the ordinary course of business and were appropriately monitored.

The Federal Reserve conclusions were reported to the board of directors by the Vice President of the Federal Reserve Board of Richmond, Mr. Lloyd W. Bostian. Nevertheless, with allegations of improprieties relating to BCCI resurfaced in 1990 with the publication of the *Regardies* article, First American's chief auditor, James Lewis, was asked to conduct a thorough audit of First American's operations.

This audit, which began in May 1990 and concluded in December 1990, involved an extensive review of transactions with BCCI. It found no adverse financial effects on First American by reason of these transactions, and it found no flow of funds indicative of money laundering. It also found no evidence that any loan decisions were being controlled by BCCI.

The results of this audit were consistent with the findings of the Federal Reserve, as explained to this committee in testimony 2 weeks ago by Mr. Robert P. Black, the President of the Federal Reserve Bank of Richmond.

Mr. Black indicated that since the Federal Reserve received the first tangible evidence of BCCI loans to shareholders in late 1990, a

comprehensive, coordinated and simultaneous inspection of the holding company and examinations of the subsidiary banks had occurred that required 52 examiners from all 12 Federal Reserve Banks.

The Federal Reserve found no evidence of transactions with BCCI, other than in the ordinary course of business; is no evidence of abuse of the bank; and no evidence of significant exposure of First American to financial risk in connection with any BCCI transactions.

And this conclusion, as I noted earlier, was restated by William Taylor in his testimony of the Senate Banking Committee last Tuesday, when he agreed with Chairman Riegle that despite intensive investigation, the Fed had yet to find any probative evidence of operational control over First American by BCCI.

Now the results of the Louis audit were reported to the board of directors in December 1990, and were important to all of us because they confirmed that the bank was not being used by BCCI in any inappropriate fashion. And for a time, it also seemed to lay to rest the allegation of BCCI control.

The directors, however, had new issues that we felt needed greater attention. As I have previously stated, although 1990 had started out as another good year for the bank, the 6-month period following the Federal Reserves favorable report to the Bankshares directors in March 1990, were not good for the region.

We recognized this circumstance, as did the Federal Reserve. Other banks in the area experienced similar or even worse deterioration.

Thus, in late 1990, the Bankshares board, following consultation with the Federal Reserve, created a special oversight committee of the board. And this committee identified two areas that needed prompt attention: the need for an infusion of additional capital; and the need to conduct a thorough review of asset quality and credit review procedures.

First American has in the last 6 months realized great success in addressing capital needs that have arisen as a result of the rapid and dramatic changes in the economy. The first 6 months of this year, the Abu Dhabi investors have provided capital support approaching $200 million.

In addition to this capital, the holding company received approximately $6.8 million from the sale of First American Data Services. It also received $71.5 million from the sale of Valley Fidelity Bank and Trust Co.

Now, because of these efforts and the long-term view of our Abu Dhabi investors, First American today has a total risk-based capital to asset ratio of 9.86 percent of assets. That exceeds by 36 percent the current minimum ratio of 7.25 percent established by the Federal Reserve.

The ratio compares favorably to an average for Washington area institutions of roughly 8.1 percent. Its measure of tier 1 capital to risk-weighted assets is 8.56 percent, as compared to the 3.625 percent that is currently required under the Basle standards and minimum Federal guidelines.

Notwithstanding this strong record of accomplishment, the oversight committee and First American management continue actively

to explore a variety of possible additional steps to improve capital, and intend to continue to move vigorously in maintaining and enhancing First American's capital position.

During the past year, improved policies and procedures to administer First American's overall loan portfolio have been developed and implemented. A revised credit review function coordinated by Bankshares for all of its subsidiary banks for identifying and classifying problem loans is now fully implemented.

Bankshares has also improved programs to provide the necessary training for loan officers and to conduct on-site loan reviews and classifications at various banks.

In addition, based on First American's initiative and guidance, several of the subsidiary banks have created oversight committees to review problem credits and to develop plans to resolve them. Increased controls are now in place to monitor performance and to resolve troubled credits.

Initially, the oversight committee believed its principal focus needed to be on the capital needs of the bank and on a thorough review of the bank's asset quality and loan procedures.

However, questions about the ownership of CCAH resurfaced once more in early 1991. Journalistic investigations were accompanied by legislative and executive branch inquiries. Robert Morgenthau, the district attorney for Manhattan, was similarly interested.

In light of these developments, the committee determined that it needed to extend the reach of its activities to include closer monitoring and evaluation of the various investigations and the attendant management questions.

Now, since the activities of Mr. Clifford and Mr. Altman were the subject of these inquiries, the directors collectively believed that greater direct involvement by us was necessary to ensure that independent judgment was brought to bear on the bank's behalf.

Accordingly, I joined other directors of the bank in meetings with Mr. Morgenthau, with Mr. Taylor of the Federal Reserve, with Senator Kerry, who chairs a Senate subcommittee that has been examining this issue for sometime. We have also met with the representatives of the joint liquidators of BCCI. We have met with officials of the Bank of New England.

By these meetings, we sought to pledge the bank's cooperation in the effort to bring to light all of the relevant facts and to learn for ourselves more about the allegations that we viewed as unfairly injuring the bank.

In the 6-month period from February through July of this year, it became increasingly clear that the continued presence of Messrs. Clifford and Altman would be detrimental to First American because of the continuing publicity related to BCCI.

As you know, Mr. Clifford and Mr. Altman were the focus of much of this publicity. After various discussions with the directors and the Federal Reserve concerning their role in First American's management, Mr. Clifford and Mr. Altman decided to resign on August 9, 1991.

Now, this was obviously a painful decision for them because they had spent many years in running this institution. And as this committee has been assured, they firmly believe that they will be vindicated of any wrongdoing. Nevertheless, they, like the directors

before you today, recognized that the publicity centering on their alleged relationships with BCCI, whether justified or not, would adversely affect confidence in their leadership and therefore in the institution itself.

My agreement with this decision should not be misconstrued. I did not reach a judgment that Mr. Clifford or Mr. Altman had committed or condoned any violation of law, but only that their continued leadership would no longer serve the best interests of this important financial institution.

Whether any wrongdoing has been committed by any party is being vigorously investigated by several law enforcement bodies. Mr. Clifford and Mr. Altman are, of course, entitled to the same presumption of innocence and the same opportunity to defend themselves as any other American citizen.

In light of the complex, disputed, and incomplete factual record, it would be highly inappropriate to speculate on the positive legal culpability of any party. This is particularly true with respect to assertions allegedly supported by records supposedly kept by BCCI, since a good deal of the information that comes to us indicates that BCCI did not keep regular records, and may well have deliberately manufactured records.

Now, immediately after accepting the resignations of Mr. Clifford and Mr. Altman, the remaining First American Bankshares board members contacted Mr. Nicholas Katzenbach, who, as you know, was formerly Attorney General of the United States and also formerly general counsel of IBM, and asked him to meet with us to discuss the possibility that he would assume the chairmanship of First American Bankshares. Through several meetings in the ensuing days, we were able to frame conditions that would permit Mr. Katzenbach to accept this responsibility.

Since the resignations of Messrs. Clifford and Altman in mid-August, the First American directors, working with Mr. Katzenbach, have sought to achieve three primary objectives. The first is to bring in a new chief executive officer as a successor to Jack Beddow, who is past due, I might say, long past due his schedule date for retirement. Jack has had a long and productive and distinguished career at First American. As I said earlier, he was with the bank before it was First American. His calm and steady leadership has played an important role in helping to guide First American successfully through this turbulent period.

The chief executive officer search has gone well, and we expect to make an announcement in the near future. The process has been quite deliberate and thorough. With the assistance of a consultant who specializes in the recruitment of senior executives in the banking industry, we started with a list of more than 30 prospective candidates, all of them from outside of First American, and interviewed approximately one-third of that number.

We have been especially pleased with the level of interest in this position among very qualified individuals. The new chief executive officer will bring to First American both an impeccable reputation and a wealth of banking experience.

Our second primary objective is the establishment of a trust to hold at least 75 percent, and ideally 100 percent, of the stock of CCAH or CCAI. Such a trust arrangement was first proposed about

6 months ago by the Abu Dhabi shareholders and the Federal Reserve in response to the Federal Reserve's requirement that BCCI come up with a plan for divestiture of whatever interest it may have in First American.

The Abu Dhabi shareholders have been willing to submit their shareholdings to this trust, despite the fact that there are no allegations that their shareholdings have been financed by BCCI or are in any way improper. The concept was and is that the trust will have the power to exercise the shareholders' franchise.

Progress on the details of the trust arrangement languished for several weeks after the provisional liquidators of BCCI were appointed in early July.

Nick Katzenbach, in the discussions leading up to his nomination as chairman of First American, immediately recognized the benefits offered by the proposed trust arrangement. His insistence that it be implemented as soon as possible has prompted renewed progress on the trust arrangement.

Although some of the technical details are still being worked out by the lawyers, a majority of the CCAH stockholders, as well as the British and Luxembourg liquidators, have agreed, one, that the trust will have exclusive authority to vote the stock of First American's holding company that is placed in it, and the trust will be independent of any control by the stockholders.

This trust arrangement will enable First American to proceed now to a new stage in its life, without becoming entangled in disputes regarding its ultimate ownership that could take years to resolve.

First American's ability to compete successfully in this difficult economic climate has been undercut by the considerable confusion that has been created by publicity related to BCCI. Because it has been alleged that BCCI controlled shares of CCAH, First American has been associated with BCCI in much of this publicity. And this has unfairly tarnished the reputations of First American and its many employees.

It's important that this committee understand and make clear to the public that the alleged ownership of CCAH shares by BCCI does not reflect adversely on the integrity of First American or of its employees.

It is undisputed that no irregularities, no illegal transactions were discovered by the Federal Reserve in its detailed audits of the account relationships with BCCI.

The Federal Reserve has not alleged that any First American employees have been involved in illegal activities, in particular the Federal Reserve, found no evidence of any money-laundering activities at First American banks.

It is also undisputed that the shareholders of CCAH have not taken money out of First American, but have, in fact, contributed substantially to the financial strength of First American's banks over the years.

The shareholders have contributed in excess of $400 million in capital and no dividends wherever paid to the shareholders. All of First American's substantial profits were reinvested in the institution.

I would note that the Abu Dhabi shareholders, whose purchases are not alleged to have been financed by BCCI have been particularly cooperative over the past year.

First American's ability to deal with the current recession and the real estate market downturn has been substantial enhanced by the willingness of the Abu Dhabi shareholders to act as a source of strength.

Many other banks attempting to deal with the current economic conditions do not have the benefit of such investor support.

The central concern of this committee and the Federal regulators is whether BCCI violated the Bank Holding Company Act by acquiring secretly ownership of a majority of CCAH stock through loan agreements which BCCI is alleged to have entered with certain individual shareholders.

Now there is no question but that none of the directors before you today, none of these directors, nor any other current employees of First American, had any knowledge of these agreements or of BCCI's alleged ownership of CCAH.

Indeed, we have still never seen these loan agreements. I have discussed the alleged ownership interest of BCCI in CCAH stock with the representatives of the joint liquidators of BCCI.

And even the joint liquidators were unable to confirm that BCCI, in fact, wants CCAH stock.

They explained to me that no CCAH stock certificates appear to be in BCCI's possession and that their claim to ownership will rest on certain contracts whose validity may be disputed.

It may be true when all the disputed facts are settled, that a violation of bank regulatory law will be proven. At present, that is purely a matter of speculation.

But what is not speculative, Mr. Chairman, is that none of the First American's employees are in any sense at fault in these events.

And I seek your cooperation in preventing any further injury to the reputation of the First American banks and to the employees that have served their communities so well.

In conclusion, Mr. Chairman, I wish to note that First American has been gratified by the high degree of loyalty and confidence that its customers and depositors have displayed in recent months, despite the highly sensationalized and misleading publicity.

Once again, Mr. Chairman, I thank you and members of the committee for this opportunity to appear here today.

[The prepared statement of Mr. Mathias can be found in the appendix.]

The CHAIRMAN. Thank you very much, Senator.

Mr. Adams, do you have a statement?

Mr. ADAMS. No, I don't.

The CHAIRMAN. Mr. Beddow.

Mr. BEDDOW. I do not.

The CHAIRMAN. Mr. Scoffone.

Mr. SCOFFONE. No, I do not.

The CHAIRMAN. Mr. Stauffacher.

Mr. STAUFFACHER. No, thank you.

The CHAIRMAN. I am going to ask unanimous consent that I place in the record after my opening statement—I neglected to do

this, and I apologize, but in my consternation at arriving late, I overlooked it.

It is a very important article that has just come out in the latest addition of the *World Press Review* for October 1991, and it reprints articles from Italy's *il Mondo.*

And, you know, they state, "the non-existent controls, ignored warnings, permissive laws: Criminality has been given the green light. And new European Community directives to prevent money-laundering risk no longer being of any use.

"The reason is that a no man's land now cuts Europe in two." So it goes on and points out how vulnerable the thing is.

Then they have another article by the Oslo Norway *Dagen Naeringsliv* in which the title of it is "Around the World's Financial Havens" by Tom Marthinseon. And they point out the existence of these havens worldwide from the Caribbean to the Pacific.

I will just read, "Tax havens of the Pacific are more of an unknown quantity. Japanese, American, and Australian capital is now being lured to the region's mini-states."

And then they mention what used to be the New Herbrides, and after their independence are now known as the nation of Vanatu, all the way to the Cook Islands, out of New Zealand, Port Louis, the capital of Mauritius, and then they go to Europe.

I am going to get copies for each member present here so you will have it, to indicate the seriousness of the task we have confronting us.

Senator Mathias mentioned the Basle agreements. Well, those agreements were the result of the pressure of the Europeans principally, but mostly the Bank for International Settlements of which we are not a voting member, and the imposition and the convergence of capital standards that resulted.

I want to remind the gentleman and also you Board Directors, that come January, you will have the next increase in your reserve requirements mandated on account of the Basle agreements.

So that will complicate the picture if we get the refinancing plan through on the bid. And I just want to mention this, because we are going to have to look to perhaps another committee, Foreign Affairs, and also the executive branch, to exert some leadership in bringing about some world consortium so we can control this.

Now, the gentle lady controlling the time, I would like to get my 5 minutes on questions.

When Mr. Clifford and Mr. Altman were here, I was very critical of their multiplicity, of their activities and the responsibilities and their power.

I said they wore so many hats, and in this case here Senator, you are the director of First American, but your law firm, Jones, Day, represents all of the directors here today except Mr. Scoffone, as I understand.

Now, another Jones, Day partner, Mike Bradfield, was the General Counsel of the Federal Reserve during most of the investigations of the BCCI-First American relationship.

We also know that Jones, Day has hired at least three prominent lobbyists to reach us in the Congress with respect to the investigations of the so-called investigation of BCCI.

Now, my question is this: If you had your druthers right now, that is, if you had to choose between two options, one being a member of the board and the other as a member of the law firm hired by the directors of the bank, which one would you give up?

And what would be the purpose of Jones, Day hiring lobbyists to come here to the Congress? On behalf of First American? In what way?

Mr. MATHIAS. Well, Mr. Chairman, I think you point to a question which is an important one, and one that I share as a serious subject, that we have to keep very careful control over and not permit an intermingling of interests in any improper way.

We have been very conscious of that, and in this situation Jones, Day had very little relationship whatever to First American Bankshares in any business at all until the difficulties which have occurred in the past several months.

The help of Jones, Day was acquired as a result of a decision of the special oversight committee, and I might refer to Mr. Beddow, who is a member of that committee, who would—who could comment, I think, objectively on that decision.

Mr. BEDDOW. I might say, Mr. Chairman, the selection by that committee, that oversight committee, which is composed of Senator, Mr. Stauffacher, Mr. Adams, and myself, that committee made the selection of Jones, Day without any pressure from the Senator.

The Senator didn't involve himself in it. We knew some of those people, and we have dealt directly with those people rather than through the Senator, and we think they have served the committee well.

And some of the other assignments that I have decided to give them, they are serving me well.

The CHAIRMAN. Well, be that as it may, there is another question here. Were you aware—we have this report, this information, that First American became the source of loans to from political figures and defense individuals.

For instance, in New York, the First American of New York seemed to have been entrusted with that, and it seems to me that given the nature, for instance, in Washington, DC, First American loaned money to such people as the Embassy officials, the Jordan military, the Saudi National Guard officials, Saudi military officials, United Arab Emirates officials, Algerian, Guatemalan military officials, Libyan militia officials, and Kenya military.

Were you all aware that this was a pattern of lending here, and what would be the reason behind it?

There may be some explanation, but it seems to me that this would follow the pattern that had been outlined to begin with by Mr. Abedi in the document that we submitted for the record when together with former employees of the New York Bank scoped out what their intentions were for the American market and their involvement in it.

Why this select group? We even have a note that First American employees attended a reception in honor of Iraqi military in January 1988.

So—but the loans, you know, why would First American be the source of that banking loan? I just raise that issue. Do you have any comment?

Mr. BEDDOW. Mr. Chairman, I am not familiar with the specific loans you mentioned, but most foreign countries have Embassies in this country, have missions in this city. They do business.

All the banks in Washington compete for that business, and we have competed through our Washington bank with a lot of local business through Embassies and missions through foreign government.

And I might say, I don't believe we have the largest percentage of those loans. Other banks in town have more of that type of loan than we do.

The CHAIRMAN. All right, sir.

There was one final question I have for the moment, and I also will ask unanimous consent that I and any other member be permitted to submit questions in writing to the gentleman.

When you get the transcript of these proceedings for your oversight and correction, hopefully by then you will have any questions that are to be submitted for your reply for the record.

Senator, in your August 2 letter to Mr. Taylor and Mr. Mattingly of the Federal Reserve, concerning the removal of Mr. Clifford and Mr. Altman from the board, you stated, and I quote, "During the past week there has been confusion with respect to your position on the question of Mr. Altman and Mr. Clifford remaining as officers and directors of First American."

I wonder if you could enlarge on what you are referring to about this confusion?

Did the Federal Reserve seek to remove all the directors or just Mr. Clifford and Mr. Altman?

Would it have been in the best interests of First American for all the directors, including yourself, to have resigned?

Mr. MATHIAS. Mr. Chairman, the confusion that I referred to in my letter was simply this: In pursuit of that responsibility to the bank, I talked frequently with Mr. Taylor and Mr. Mattingly and received from them the very strong impression that it was their judgment that there had to be a change in management in the bank or to put it more bluntly, that Mr. Clifford and Mr. Altman had to go.

And they also made it very clear that they felt it was the responsibility of the board of directors to bring about that change.

I was simultaneously having discussions on the same subject with Mr. Clifford and Mr. Altman, and they were having independent conversations with Mr. Taylor and Mr. Mattingly.

And I would find that when they would return from their conversations with Mr. Taylor and Mr. Mattingly, they apparently brought back different points of view from that which had been expressed to me, and that was the confusion that I was referring to in that letter.

The CHAIRMAN. Thank you.

My time has expired.

Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman, and I would say, gentlemen, that there are so many unanswered questions here that I hardly know where to start.

But I would like to start out by suggesting that adding to the confusion here, to me is this organization charter. Bank holding companies and subsidiary banks of First American. We have——

Mr. MATHIAS. I agree it is a very confusing——

Mr. WYLIE. Why this complicated structure? Were they trying to blind somebody with footwork, or was there a reason for this, Senator?

We have starting out here a holding company from the Netherlands Antilles. What other companies did that holding company own; do you know, or was it just Credit Commerce American Investment of the Netherlands that they owned?

Mr. MATHIAS. This structure was created back at the time of acquisition of Financial General by the First American investors and that was long before I had joined the board. So I don't have firsthand knowledge.

Mr. WYLIE. So you really don't have any firsthand knowledge of why they entered into this very complicated arrangement, it seems to me. You get into the picture with First American Corp. of Virginia, you are on their bank holding company board; right?

Mr. MATHIAS. First American of Maryland.

Mr. WYLIE. First American of Maryland.

Mr. MATHIAS. First American Bankshares, which is the lowest of the four levels of the holding company.

Mr. WYLIE. In your testimony, when you start, I currently serve as a member of the board of directors of First American Bankshares, Inc., and then First American Bank of Maryland.

Mr. MATHIAS. Bankshares is a Virginia corporation.

Mr. WYLIE. That is right, so you are on the board of directors.

Mr. MATHIAS. Right.

Mr. WYLIE. I wanted to point that out as adding to the confusion of trying to get some answers here.

You wouldn't have any opinion as to why this complicated arrangement for one holding company owning another, another, and another and finally you get down to the bank.

Why would that be entered into?

Mr. MATHIAS. I am mindful of the chairman's admonition earlier that we can't assume anything in this world.

I have always assumed, however, that there were some tax implications that affected that structure.

Perhaps Mr. Beddow could throw some light on that.

Mr. BEDDOW. Those three corporations, CCAH, CCAI, and First American Corp. were formed before the takeover.

They existed and then it was First American Corp. that made the tender offer to acquire Financial General back in 1982.

They exist solely to own the company beneath them and it was my understanding at the time that they were formed to facilitate tax payments, dividend payments at minimum tax.

There have, in fact, been no dividends paid, so it was a useless exercise, but I think that was the purpose in the beginning for setting it up that way.

Mr. WYLIE. You get the feeling that there should be a box having BCCI in it.

I have an exhibit from the Board of Governors of the Federal Reserve from Shahid Jamil.

Do any of you know the name?

He is with BCCI and he has written a communication, "Half Yearly Review of FAB."

It says, "Please find enclosed a review of First American Bank shares for the half year ended June 1984. The bank has achieved the budgeted figure for deposits and exceeded that for loans."

Then he has, "Perhaps Mr. Altman may require some assistance and guidance in enabling him to reach the budgeted income figures in the second half of 1984, without further increasing their loan portfolio and raising the loan/deposit ratio beyond the existing 64.72 percent."

There is another note, in Mr. Jamil's handwriting: "I have since discussed the half-yearly results of FAB with Mr. Altman to draw his attention to the concern about the group of his income is falling off."

[The information referred to can be found in the appendix.]

Mr. WYLIE. Why would BCCI be reviewing First American Bank shares if they had no interest in it?

Mr. BEDDOW. Let me say I don't know that man, and I am not familiar with that memo other than having heard about it just recently.

I was not familiar with it at the time.

As I understood the situation, BCCI served as investment advisors to CCAH shareholders and in fulfilling that role, they could very well have been somewhat interested to advise the shareholders.

Mr. WYLIE. Is that normal practice for them to be advisors to other shareholders?

Mr. BEDDOW. Well, this is an unusual situation in that there were just a small number of shareholders so each shareholder had presumably a large interest and he could very well have had an advisor to help him, but I don't know anything about it.

Mr. WYLIE. Do you know Mr. Naqvi?

Mr. BEDDOW. Not personally. I have seen his name.

Mr. WYLIE. Shoaib, S-h-o-a-i-b?

Mr. BEDDOW. I don't know him personally.

Mr. WYLIE. Nobody knows these gentlemen.

That is in line with what we have been getting in the way of information.

No reflection on you, gentlemen.

I don't mean to imply that.

All of us have been impressed by the high-powered and top dollar legal defense that Clifford Altman have assembled.

They have retained the services of Scadden Arps and have enlisted the aid of a major P.R. firm.

When testifying, they were accompanied by no less than 10 lawyers.

Is it true that First American is paying for these legal expenses as reported in the paper and if so, how much has been billed so far if you know?

If you don't know, I would like to have it supplied for the record.

[The information referred to can be found in the appendix.]

Mr. WYLIE. Is First American being billed for these legal expenses?

Mr. MATHIAS. Mr. Chairman, there are some provisions of law and there are also some provisions of the bylaws of the corporation which touch upon this subject.

Generally, I think in our society we feel that people are entitled to counsel.

In this particular case, these bills have not been paid to date.

There have been billings that have been submitted.

If the committee would like, we would be happy to supply that for the committee.

Mr. WYLIE. I think it is pertinent and germane to the hearing this morning, Mr. Chairman, and I would ask that that be supplied for the record.

The CHAIRMAN. Without objection, so ordered.

[The information referred to can be found in the appendix.]

Mr. MATHIAS. I think the directors feel that they will do what they are legally bound to do, but those decisions have yet to be made.

Mr. WYLIE. Those decisions were made before you became a member of the board by agreements previously entered into?

Mr. MATHIAS. The provisions of the bylaws were before——

Mr. WYLIE. If you would supply that, I would appreciate it.

[The information referred to can be found in the appendix.]

Mr. WYLIE. I will have some more time to get back, Mr. Chairman. There are a couple of other areas I want to pursue.

Thank you very much.

The CHAIRMAN. Thank you.

I believe Mr. Riggs——

Mr. RIGGS. Thank you, Mr. Chairman.

Gentlemen, Senator Mathias, I want to go back to a comment you made about this separate loan committee that was set up under one of the holding companies, I guess as an adjunct for your organizational chart here, this is a loan committee of, was it the First American Corp. Bank Holding Co.?

Mr. MATHIAS. The loan review process.

Mr. RIGGS. Where was that—where would that fall within your organizational structure here?

Mr. MATHIAS. In Bankshares.

Mr. RIGGS. First American Bankshares of Virginia?

Mr. MATHIAS. No.

There is a slight confusion in the chart in that First American Bankshares is noted as a Virginia corporation, but it shouldn't be confused with First American Bank of Virginia, which is the operating bank in Virginia.

Mr. RIGGS. Yes.

So your testimony is that First American Bankshares, Inc. of Virginia, a bank holding company, has a loan committee or loan oversight committee?

Mr. MATHIAS. That is correct.

Mr. RIGGS. Did any of you gentlemen serve on that committee?

Mr. ADAMS. The function that was referred to was a loan review function.

Many of the personnel actually are physically located in the banks and their job is to review loan files and see that the loans are properly graded, and that is important because it is those

grades that determine appropriate loss reserves, chargeoffs, and so forth.

So that function was managed by personnel that were at First American Bankshares.

The actual loan reviewers were very often located in the various banks, but reported to that individual.

He didn't refer to a committee. He referred to an individual that performed a specific function.

That function was loan review.

Mr. RIGGS. Who was that individual?

Mr. ADAMS. His name was Ron Lebio who headed that function.

Mr. RIGGS. Were any of you as individual directors and outside directors aware of the extensive loan activity, particularly in the area of letters of credit between First American Bank of Washington, DC, National Bank, and BCCI?

Mr. STAUFFACHER. Could you restate that, sir?

Mr. RIGGS. Do any of you have personal knowledge regarding letters of credit exchanged between First American Bank of Virginia or First American Bank here? Washington, DC and BCCI?

Mr. STAUFFACHER. I have not.

Mr. BEDDOW. Well, I don't believe there were extensive letters of credit.

There were some letters of credit in the scheme of things and the volume of loans and letters of credit we have. I don't think there was an unusual number of letters of credit.

Mr. ADAMS. I don't believe we are aware of any substantial volume with those banks you just mentioned.

Mr. RIGGS. There are letters of credit, those type of transactions despite all the warning signs about BCCI, not the least of which, of course, would be the indictment and the fine in the Miami drug money laundering case after which you continued to have a correspondent banking relationship of some sort with BCCI?

Mr. ADAMS. I don't believe there were any letters of credit after those dates in the local area banks.

Our New York bank, which did substantial international trade letters of credit, continued to have a correspondent counterpart relationship with BCCI and these were trade transactions done under correspondent relationships with BCCI.

Mr. RIGGS. I am now looking at an internal memorandum dated December 21, 1988.

I guess this would be shortly after the indictments in the Miami case where First American Bank, I guess First American Bank of Virginia, through a William G. Avonberg extended a letter of credit to secure a performance bond or an improvement bond for a company by the name of Investment Trade, owned by Mohammad Hammoud.

Were you aware of that transaction?

Mr. ADAMS. Not at the time, but subsequently.

It was a letter of credit issued by BCCI for one of their customers that was confirmed by our New York bank.

Mr. RIGGS. Which New York bank?

Mr. ADAMS. First American of New York, and then our Virginia bank confirmed New York's because the city of Alexandria required a Virginia bank to do so.

Mr. RIGGS. Was it unusual that American banks were honoring BCCI letters of credit?

Mr. ADAMS. I don't believe it was unusual.

There were banks that had similar policies.

Mr. RIGGS. Are you aware of any other institution other than First American Bank?

Mr. ADAMS. Absolutely.

Mr. RIGGS. Can you give me one?

Mr. ADAMS. I will write their names down here and——

Mr. RIGGS. That would be fine.

Senator Mathias, referring to the specific transaction, did you know at the time or do you know today who Mohammad Hammoud is?

Mr. MATHIAS. I do not.

Mr. RIGGS. You are not aware that at the time that First American Bank of Virginia issued this letter of credit to him and his company that he owned more than 5 percent of CCAH?

Mr. MATHIAS. I did not know that.

Mr. RIGGS. Are you aware that—of existing banking regulations that require the disclosure of someone who owns more than 5 percent of stock in a bank holding company?

Mr. Adams is nodding his head yes.

Mr. MATHIAS. That is correct.

Mr. RIGGS. Can you explain why you did not know who this gentleman is?

I might help your memory and point out that Mr. Hammoud is also a gentleman who bought stock from Mr. Clifford and Mr. Altman.

Mr. MATHIAS. I might say that I had no reason to know who he was.

I assumed that he was properly registered with the Federal Reserve, but nothing had brought his name to my attention.

Mr. RIGGS. You are not aware that he had acquired this interest by purchasing the stock of Mr. Clifford and Mr. Altman?

Mr. MATHIAS. I had never heard of that transaction.

Mr. RIGGS. Did you as directors, as oversight capacity, specifically focus in on the compensation package for Mr. Clifford and Mr. Altman?

Mr. MATHIAS. Yes. From time to time, Mr. Clifford would remind us that his salary was $50,000 a year.

Mr. RIGGS. Well, I would love to pursue this line of questioning further, but I notice that the red light is on. I will stay, in the hopes that I can obtain time later.

The CHAIRMAN. Mr. LaRocco.

Mr. LAROCCO. Thank you, Mr. Chairman.

I want to thank the panel for being here today, and to thank Senator Mathias. A critical question that I raised at the earlier hearing with Mr. Clifford and Mr. Altman is on the issue of when an investor is really a nominee, when there is a front person.

Who could have or should have known that the investors were really nominees for BCCI?

Mr. MATHIAS. Who could have or should have known that the investors were nominees? Only those people who had access to the basic information.

Mr. LAROCCO. Mr. Clifford said that he was duped, he didn't know. Who really has responsibility——

Mr. MATHIAS. We are looking at a very tangled situation here and one that isn't clear today. The Federal Reserve believes that over 25 percent of the shares were owned by a nominee. We are advised by the liquidators in London and Luxembourg that the documents which support this allegation are not determinative, to their knowledge.

The original shares are not in their possession. There are those people who have been said to be nominees whose position on whether borrowed any money, signed any notes, or signed any stock powers is unclear.

So, this is a very tangled kind of actual situation.

Mr. LAROCCO. Can you suggest to the committee what should be done to either legislate or to enact into law means by which we can get our hands on that knowledge in the future; in other words, how do we prevent this from happening in the future, and by what means can we transfer information around the world that would be meaningful to us in this country?

I agree that we should not stop foreign investors from purchasing and transacting business in this country. It is just when they try and do it without our knowledge, without your knowledge.

Mr. MATHIAS. I think you have touched on an important subject for the future, because if we are going to have free flow of capital and trade around the world, there has to be commensurate responsibilities and means of enforcing regulations.

I would hope that the committee would look into international regulatory authorities that could follow these transactions from one country to another, so that you wouldn't have to stop at the border of the United States or any other country, but you could have competent international supervision.

It seems to me that that is going to be the necessary concomitant to this global economy which we have seen developing in our generation.

Mr. LAROCCO. Do you have any specifics that would help us?

Mr. MATHIAS. What is happening in Europe offers at least an opportunity to get started as the European Community develops, gets into high gear next year in 1992, it will be possible to have a greatly expanded relationship with the European Community which will touch all the member nations of the Community, so that will in itself advance the control of transactions of this sort.

That pattern then needs to be expanded into other areas geographically.

Mr. LAROCCO. I appreciate that. I am looking at a memo dated October 8, 1987 from Mr. Montano. It suggests there was an international coordinating committee within the bank, which I think somebody had mentioned, and that it was normal for banks to be pursuing business with Embassies and so forth.

In retrospect, was that committee so aggressive that it led to ties with various parties that led to this ownership? In retrospect, it seems like a very aggressive committee.

Mr. MATHIAS. I don't think that had anything directly to do with the ownership issue.

Mr. LAROCCO. Who did Mr. Barrett work for within the bank?

Mr. MATHIAS. Which committee?

Mr. LAROCCO. The International Coordinating Committee, it seems like a committee within the bank that pursues marketing with the international community.

Mr. MATHIAS. Could you identify that?

Mr. BEDDOW. I am not sure I am familiar with the document you are talking about or the committee you are talking about. If you could provide us more information——

Mr. LAROCCO. It is the International Coordinating Committee of your bank, sir. Present were Messrs. Elly, Montano, Cangelosi, Barrett, Lord, Shawish, McDonald, von Berg, McKenzie, Cater, Valdes. Minutes of the International Coordinating Committee—it looks like it is associated with the bank.

This is not a hostile question. Somebody made the statement that you were pursuing, like every other bank in Washington, DC, international business. Within this memo is mentioned BCCI and others.

In retrospect, after you have looked over the last 4 years, did over-aggressiveness in this committee lead to these entanglements?

Mr. BEDDOW. I don't think we have any entanglements with BCCI that are a problem for us at First American Bankshares or at a lower level. Any entanglements are at the CCAH level and with the stockholders. This committee was a group within the company to discuss what sort of international business might be available for them, but I don't think it led to any improper or overly-aggressive connections with BCCI.

Mr. LAROCCO. How will you know in the future when a person shows up with money and asks to buy stock, whether that person is a nominee or whether he is a bona fide investor at your bank, after all this has happened?

Mr. BEDDOW. Well, that would be a matter at CCAH. CCAH has a list of shareholders. If it were going to issue stock, it would have to find out who it was dealing with. Ordinarily, I think CCAH, because of preemptive rights, where they have issued new stock, have simply offered stock rights to, subscription rights to their existing shareholder base.

We weren't involved in that. CCAH handled that, and they did have a number of stock issues over the years, but I think they were all back to their regular shareholders, and if a regular shareholder wanted to assign his rights to someone else, he could do it.

The CHAIRMAN. Without objection, I am going to ask the gentleman be given an additional minute, because I am astounded. Incredible. I am kind of scared now. You guys are in charge of the bank. Mr. LaRocco is reading from a memorandum of the minutes of the International Coordinating Committee meeting September 29, 1987, that indicates that the people present were: Mr. Elley from the First American Bank of New York, who is also a BCCI employee; Mr. Cangelosi who is also from New York; Mr. Barrett, Mr. Cater from NBG; Mr. Valdes from NBG International and luncheon guests, Mr. Stevens from First American International. That is Florida. And Mr. Duncan from New York.

You mean you all weren't aware of this committee? These are employees?

Mr. ADAMS. We are familiar with that committee. There were other committees and other testimony that came up, and it was just unclear what you were referring to. And that committee was an attempt that was, really initiated by Mr. Altman to utilize the capabilities that had been developed in our New York bank in other areas of the banking system.

And those capabilities really had to do with being able to offer trade letters of credit to small- and medium-sized companies, and also access to chips and swift money transferring services, a capability that these other banks did not enjoy which New York had.

So, an effort was made to get the appropriate officers together to see if there was more that could be done primarily with the capabilities that existed within our New York bank.

So, that was the purpose of the committee, and they attempted to develop plans to expand that.

The CHAIRMAN. Your reaction here, and I notice nobody volunteered otherwise, was that it was unknown. Thank you very much. I think the time is up.

Mr. Armey.

Mr. ARMEY. Thank you, Mr. Chairman.

Mr. Scoffone, I am going to ask staff to give you a couple of memos that I want to ask you about.

In May 1986, you were considering, your bank was considering the acquisition of the First National Bank of Georgia, which was owned at that time by Mr. Pharaon.

Would somebody from staff please give these memos to Mr. Scoffone.

I have a memo dated May 8—I am trying to drive at the question of the extent to which people in BCCI were conducting the affairs or encouraging or abetting or running the affairs of First American Bank.

I have a memo from Robert Altman to a Mr. Swaleh Naqvi.

Do you now Swaleh Naqvi?

Mr. SCOFFONE. I have never met the individual. No.

Mr. ARMEY. Do you know who he is?

Mr. SCOFFONE. Yes.

Mr. ARMEY. He is apparently with Bank of Credit and Commerce International. That is the address on the letter.

Mr. Altman explains to Mr. Naqvi that in discussions with Dr. Pharaon, it would be advantageous to Dr. Pharaon that the purchase be made by your bank rather than NCNB.

Another point he makes is that you haven't made an analysis of the proposition that it is attached, and he makes certain recommendations and then at the end of the letter, it says "If you have any questions, please call me. I trust you will forward this information to Mr. Abedi."

Who is Mr. Abedi?

Mr. SCOFFONE. Mr. Abedi was the president or the founder of Bank of Credit and Commerce International, to my understanding. I have never met the individual.

Mr. ARMEY. Obviously then Mr. Altman is looking into the proposition of acquiring the Georgia Bank at the behest of Mr. Naqvi and Mr. Abedi.

Could one draw any other conclusion regarding this?

Mr. SCOFFONE. This is the first time I have seen Mr. Altman's letter to Mr. Naqvi.

The only thing I can say is that BCCI was the financial advisors to the investors.

It appears to me that he was just transmitting my analysis of the acquisition.

Mr. ARMEY. You have also a copy of your analysis.

I am sure you have seen this before.

First of all, this doesn't strike me as a very smart acquisition since there are obviously legal obstacles and hurdles to be overcome if the bank is to acquire the Georgia Bank and there certainly would be other alternative acquisitions if that were the case.

One of the things that strikes me here is you recommend in your memo that the bank pay $211 million to First Georgia for National Bank of Georgia, and that the—that would be considerably higher than the median price of other offers, which was around $152 million.

NCNB had offered some amount considerably less than that, and it was not very attractive to Mr. Pharaon because they wanted to do what was called a stock swap.

He apparently needed cash rather desperately.

Then you say, "We could offer $211 million, a price considerably higher than what anybody else is willing to offer, and then you examine alternative ways in which the transaction might be structured," and on the second page of your memo, you say, "I do not believe that setting up a shell bank holding company is the appropriate way to proceed."

That would seem, I would think, somewhat obvious to just about anybody.

Was it a fairly common practice with banks with which your bank was affiliated to use shell bank holding companies?

Mr. SCOFFONE. That is correct; it was.

Mr. ARMEY. This is a common practice in banking?

Mr. SCOFFONE. It was a common practice with financial General and it was the way we were structured when I joined the company back in 1966.

Mr. ARMEY. You say that you could come up with $160 million in cash and then perhaps use some CCAH stock.

I see that mentioned here.

Then you say $60 million from a third-party lender known to the investors such as BCCI or BAII.

So you are working out a work sheet where you are giving Mr. Pharaon a very attractive price primarily financed with cash.

That, in turn, acquired through loans from BCCI, sending this memo to Mr. Altman, who sends the memo back to an officer at BCCI and specifically requests or expresses his trust that Mr. Abedi would get this information.

Doesn't that look to you like a clear indication that BCCI is directing the decision of your bank to buy the Georgia National Bank under very favorable conditions to Mr. Pharaon?

Did, in fact, Mr. Altman tell you that we are interested in pursuing this particular transaction irrespective of all other things we might pursue, irrespective of the legal obstacles in pursuing this

transaction in order to bail out Mr. Pharaon from his current financial troubles?

Did Mr. Altman give you this instruction when he asked you to work this up?

Mr. SCOFFONE. He did not.

Mr. ARMEY. Did Mr. Altman tell you that Mr. Abedi was particularly interested in this transaction?

Mr. SCOFFONE. He did not.

Mr. ARMEY. You had no knowledge of the relationship between BCCI and Mr. Pharaon?

Mr. SCOFFONE. Now we are at that time.

Mr. ARMEY. At that time.

Mr. SCOFFONE. I did not know of Mr. Pharaon's involvement to the extent he was with BCCI.

Mr. WYLIE. Would the gentleman yield?

On phase two of this National Bank of Georgia acquisition alternative which you prepared, it says, best effort is made to persuade Federal Reserve or change Georgia law to allow CCAH to acquire NBG; estimated time to succeed, 1 year. That is rather specific information to suggest that you didn't know that BCCI was interested in the National Bank of Georgia.

Mr. SCOFFONE. I don't understand the question.

Mr. WYLIE. Where does the 1 year come from? What is the significance of the 1 year?

Mr. SCOFFONE. That was just my estimate of the time that it would take to change Georgia law to allow First American Bankshares to acquire the National Bank of Georgia, which I spelled out earlier in the memo, that under the Southeast Compact we couldn't acquire this particular investment the way the Compact was structured, and it was my understanding that one of the ways to change it was to get Georgia law changed. And I estimated it would take about a year to do that.

Mr. WYLIE. A year to change the Georgia law in order to accommodate this acquisition?

Mr. SCOFFONE. Yes, sir.

Mr. WYLIE. That would allow for a considerable bit of lobbying by the Georgia State Legislature——

Mr. SCOFFONE. I am not a lawyer. That was an outside limit on my part to give him some idea of how long the transaction could take. It was based upon my judgment of how long things normally take.

Mr. ARMEY. Reclaiming my time, did you tell Mr. Altman that this was not a good transaction for this bank to undertake?

Mr. SCOFFONE. I did not.

Mr. ARMEY. Did you tell Mr. Altman it was not a good idea to park several million dollars in CDs in the bank in the Cayman Islands owned by BCCI, that was in trouble both with respect to stability of the bank and with respect to its legal problems?

Mr. SCOFFONE. I am not sure I understand the question.

Mr. ARMEY. You know, the transaction where your bank purchased several million dollars' worth of CDs from a bank in the Cayman Islands. You remember that, $74 million in CDs——

Mr. SCOFFONE. Are you referring——

Mr. ARMEY. Would you consider that a prudent thing, for your bank to buy $74 million of CDs in a Cayman Islands bank?

Mr. SCOFFONE. First of all, I believe First American Bankshares did take out a $45 million CD with BCCI in the Caymans in 1986, and it seems to me—at that time, I am not aware of any problems involved with BCCI—and, no, I did not tell Mr. Altman that it was a bad investment.

Mr. ARMEY. Can I take it that you found Mr. Altman, a man who had previously no experience in banking, to be so astute as a banker that he did not require advice from you when he entered into transactions that I think would be patently risky to anybody, whether they are in the banking industry or not? Was he that astute a person?

Mr. SCOFFONE. I believe the way the transaction happened, First American Bankshares received $45 million cash capital from our investors, and Mr. Altman instructed me to deposit that money with BCCI Cayman, since First American Bankshares at that time had no need of the funds.

Mr. ARMEY. How much money did you say?

Mr. SCOFFONE. $45 million.

Mr. ARMEY. What about the $74 million?

Mr. SCOFFONE. The $45 million was at the Bankshares level, and the $29 million was at the CCAH level, which was not familiar or involved in that transaction.

The reason we did the investment was to receive a higher rate of interest than we would normally receive in the domestic banking situation.

Mr. ARMEY. In your opinion as a banker, was the rate of interest high enough to compensate for the risk, since this bank was obviously in trouble and you had no insurance against that risk?

Mr. SCOFFONE. It wouldn't have made any difference where we deposited the money. The money would have only been insured up to $100,000, so $44.9 million would have been at risk, regardless. Yes, we received approximately 100 basis points higher rate of return.

At the time, BCCI was not in trouble, to my knowledge; I didn't see any problem with the transaction. Mr. Altman requested I do that, and I followed his instructions.

Mr. ARMEY. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. I am going to follow up on Mr. Armey's line of questioning.

I started out this hearing with a statement to make it clear that the banks in Virginia, Maryland, and DC are not involved in any illegal activity; and that appears to be the case, those banks under First Metro Holdings. But when you look through the material that the staff has acquired through subpoena, you can't help but be shocked at the information here.

Let's talk first of all about National Bank of Georgia. I think, as most of us are aware, at the beginning of the story, Bert Lance was in some financial trouble, and it was Mr. Abedi who came to him and arranged for purchase of NBG stock from Mr. Lance by Mr. Ghaith Pharaon for twice what it was worth on the market at that time.

Pharaon paid about $20 a share, when it was worth about $10. Is that roughly——

Mr. SCOFFONE. I have no knowledge of that transaction.

Mr. MORAN. You don't have knowledge of a lot of specific things, but there are things that seem to get you involved, whether it is only as a numbers cruncher, or perhaps deeper.

Anyway, then we have a recommendation here from—as to the purchase of National Bank of Georgia for either $160 million in stock plus another $60 million that would come from a third-party lender known to the investors, such as BCCI or BAII; and now we are talking about $211 million at a time when this bank has a negative cash-flow of $100,000 in 1986.

That is correct, is it not?

Mr. SCOFFONE. I am sorry—which bank?

Mr. MORAN. National Bank of Georgia.

I am looking at the numbers that I suspect you may have supplied. It begins with 1986 figures, that there was a net cash-flow of minus $100,000 with National Bank of Georgia at the time it is being recommended that it be purchased for $211 million. I understand it was eventually purchased for $220 million.

This boggles the mind, why this much money is being transacted for a bank that—it certainly wasn't worth more than the $10 a share it was trading for when Mr. Pharaon paid twice that amount; and here we are, inflating it again.

What bothers me more than that is this statement that "Best effort is made to persuade Federal Reserve or change Georgia law to allow CCAH to acquire NBG." How much was spent on that lobbying to change Georgia law, in other words, to influence the Georgia Legislature?

Mr. SCOFFONE. To my knowledge, First American did not spend any money. I don't know what the National Bank of Georgia spent to—I don't have that information.

Mr. MORAN. Mr. Chairman, does the staff have information with regard to how much was allegedly spent to influence the Georgia Legislature during that 1-year period of time?

The CHAIRMAN. Let me say prefatorily, the Federal Reserve Board is conducting an investigation of violations in the efforts made to change the law in Georgia. However, the best estimate we have had from the documents the staff has furnished is about $1.5 million.

Mr. MORAN. $1.5 million in 1 year to change Georgia law. That is an awful lot of receptions.

Does anybody on this board who—my problem is that while First American Bankshares is responsible for First Metro Holdings, which is my parochial concern, you also own National Bank of Georgia and First American Bank in New York, and those seem to be the two banks where there are some major problems.

Now, does anybody on the board—Mr. Beddow, let me ask you, are you familiar with any lobbying efforts or memos that you were aware of with regard to influencing the Georgia Legislature? You may know there is an allegation that the word "influencing" was actually to buy the Georgia Legislature.

Are you familiar with any efforts to finance that?

Mr. BEDDOW. I was not familiar with any of those efforts at that time. That was before we acquired National Bank of Georgia, and whatever was done was done by somebody in Georgia or Ghaith Pharaon.

I have seen information since that time, but I didn't know anything about it at the time.

Mr. MORAN. What information have you seen since that time, Mr. Beddow?

Mr. BEDDOW. I don't recall right now, but I have seen references to lobbying efforts that were carried on in Georgia before we acquired it back. We had no connection with that.

Mr. MORAN. Somebody is pulling a lot of shenanigans behind the scenes perhaps. But these memos back and forth indicate that there was a very clear relationship between BCCI's financing and their intent on taking over these banks, and using the vehicle of First American Bankshares and CCAH and CCAI.

Mr. Scoffone, could you tell us whether you believed that BCCI—in your knowledge to date, BCCI was deliberately attempting to acquire control of the banks directly controlled by First American Bankshares?

Mr. SCOFFONE. I have seen the Federal allegations. I was never involved in anything with BCCI or any—was ever controlled or given directions from anybody from BCCI to my knowledge First American was not controlled by BCCI.

Mr. MORAN. There is a memo here, April 8, 1985. Are any of you gentlemen familiar with a memo from a Mr. Shawish, First American Bank of North America to Mr. Altman, president, First American Bankshares? April 8, 1985. Nobody is familiar with that?

Mr. BEDDOW. I don't recall it offhand.

Mr. MORAN. It says upon your suggestion, I visited Bank of Credit and Commerce International in Miami. The purpose of this visit was to exchange ideas and find ways in which First American and BCCI can work more closely together in areas that can be beneficial to both.

They go through a number of areas in which they would be closely tied and then it says on page 2, BCCI expressed their interest in referring business to us and thus we reciprocated. If an American company or contractor doing business in foreign countries is in need to borrow or post a bond, we can lend in the United States and have BCCI issue the guaranty through their office in a foreign country.

First American Bank of New York is currently opening correspondence relationships and exchanging test keys with many banks throughout the world. Since we are just starting, we do not know the volume of business we are going to have in these countries; and if First American Bank of New York opens accounts and exchanged test keys with the regional offices of BCCI, we will be able to service most of the world through probably three accounts, Miami, London, and Hong Kong and obviously it would be less expensive to the bank.

As we expand our international business, we can selectively open new accounts with other banks—and then it talks about the Commodity Credit Corp.

Mr. Chairman, you remember this Commodity Credit Corp., this was how BNL [Banco Nationale del Lavoro] got into trouble. They were using Commodity Credit Corp. and this memo explains exactly what BNL did to obtain subsidized loans with the help of the American taxpayers to be able to obtain OCC guaranties on 98 percent of the principal and 88 percent of the interest for a maximum period of 36 months.

Clearly BCCI had in mind using First American to pursue much of the same kind of activity we are finding with BNL and then when you list the number of foreign actions, particularly in arms sales, you find that this is almost—at least on the surface it may be a parallel situation.

Who prepared this acquisition alternative, Mr. Scoffone? Are all the numbers here? Have you got projections as to the purchase of National Bank of Georgia and the analyses of their fair value?

Mr. SCOFFONE. That is my work.

Mr. MORAN. That is the work that was attached to the letter from Mr. Altman to Mr. Naqvi of BCCI in May 1986, that Mr. Armey was referring to that involves the purchase of National Bank of Georgia, and of course relates the ways in which it might be done. Your memo to Mr. Altman on May 7, 1986, it is your words, right, that $160 million would come from two sources, $100 million from investors owned capital and $60 million from a third-party lender known to investors such as BCCI?

Mr. SCOFFONE. That is correct.

Mr. MORAN. You wrote that memo?

Mr. SCOFFONE. That is correct.

Mr. MORAN. What happened after you wrote that memo. Was that advice followed?

Mr. SCOFFONE. No, it was not. The transaction, as it finally was consummated, the shareholders contributed $190 million in August 1987 and we acquired the National Bank of Georgia for $227 million.

Mr. MORAN. $227 million for a bank that had $100,000 negative cash-flow?

Mr. SCOFFONE. I am not quite sure where you are reading from.

Mr. MORAN. It is the chart that is attached to your memo. I used to be an accountant in another life.

Mr. SCOFFONE. That is the cash-flow resulting from our investment in the National Bank of Georgia. We would receive dividends, so tax benefits and if we had to service any debt, we would have a negative cash-flow of $100,000, that is correct.

But the Georgia bank was earning money, millions of dollars worth of earnings in that period of time. This memo is a series—there is a second memo dated October 1985 which talks in more depth about the National Bank of Georgia and why we should acquire the National Bank of Georgia. This is a single memo.

Mr. MORAN. Why did you recommend that BCCI might come up with an additional $60 million in case? What gave rise to that recommendation?

Mr. SCOFFONE. The way the deal was to be structured, we were to get capital of $100 million and then some entity, possibly our shareholders would borrow $60 million to finance acquisition of the National Bank of Georgia. I simply recommended that since the

shareholders were known to BCCI, it was their financial advisor and that we had had some relationship with a bank in Paris called A Biai.

It seemed normal for me to make that recommendation.

Mr. MORAN. Essentially BCCI would be acquiring control of National Bank of Georgia?

Mr. SCOFFONE. No, I believe you are incorrect about that. My memo says that the money would be lent to the investors who would be buying the bank.

Mr. MORAN. Well, yes, but if—was the bank going to be used as collateral for the purchase?

Mr. SCOFFONE. I can't say that the bank would be used as collateral, no. It would be an unsecured loan.

Mr. MORAN. An unsecured loan of $60 million just to enable others to acquire control of National Bank of Georgia.

Mr. SCOFFONE. I don't want to debate that issue with you. You keep saying that I am saying that BCCI would acquire control and I am not saying that at all. I think you should look through the memo.

Mr. MORAN. I am trying to understand what went on, because you were the treasurer, you are the numbers cruncher, you did the analysis and made the recommendations. There is something missing. The prices paid for things are not worth what they get on their surface, so there must be some other rationale, some other motivation.

Pharaon's purchase of the National Bank of Georgia for twice what anyone else was willing to purchase it for—that doesn't make sense. The reason we ask is because there is something missing.

That, of course, is what these hearings are all about, why BCCI is so actively involved in the purchase, and how they took advantage of the fact that they were responsible for enabling the purchasers of National Bank of Georgia, for example, to ostensibly own it.

If you are making these recommendations, I can't understand why you are suggesting that you pay $220 million—you say it was actually purchased for more than that—when the numbers don't seem to justify it, and yet you are the financial analyst. They are going on your recommendation.

Mr. SCOFFONE. If you will refer back to my October 1985 memo, in that memo it discusses the average price paid for banks in the Georgia region was 2.24 times book, and that is why I recommended that we pay 2.25 times book.

Mr. MORAN. But it was dependent, really, upon Georgia law being changed and you were assuming it would be changed in a year. So you are banking on a value attached to the bank that assumes that you are going to be able to change the law.

I guess if you put a $1.5 million into changing the minds of legislators, if you knew there was commitment to do so, maybe you can make that assumption, but normally you wouldn't assume that a law is going to be changed that quickly for the benefit of the purchaser and build in the higher price based upon the assumption that the Georgia law was changed.

Can you understand my perplexity? Can you grant us that?

Mr. SCOFFONE. I do not.

Mr. MORAN. You can't. Of course not. I have used my time, Mr. Chairman. Perhaps Mr. Slattery will follow up on this line of questioning.

The CHAIRMAN. We have Mr. Roth waiting anxiously and we don't want to hold him up because his turn is due. I was just turning over in my mind why Pharaon would get involved—maybe he was trying to restore the Georgia peach industry.

Mr. MORAN. As we know, Pharaon was the guy that Mr. Abedi came up with after meeting with Mr. Lance and understanding that Mr. Lance had some trouble, Pharaon was a convenient middle man apparently.

The CHAIRMAN. We are going to invite them. Mr. Pharaon is probably laughing up his sleeve all the way to the Middle East central banks. He got all his money out from loans here and he is aboard a yacht off Argentina enjoying life. We are going to invite him if we can locate him. We are going to invite Mr. Lance. We have a long way to go.

Mr. Roth.

Mr. ROTH. I have three short questions of our distinguished panel here. I would like to follow up on one question, however, to Mr. Moran's questions to Mr. Scoffone.

My understanding is that First American purchased National Bank of Georgia for $220 million. The Federal Reserve investigators indicated that First American made this commitment without any due diligence on the Georgia bank.

Isn't this unusual to make a $220 million investment without due diligence? Do you feel that you fulfilled your fiduciary duties?

Mr. SCOFFONE. There was due diligence performed on the bank during the 1987 timeframe before we acquired the bank.

Mr. BEDDOW. Can I comment on that?

Mr. ROTH. Yes. The reason I am interested is the Federal Reserve investigators said that there wasn't any due diligence exercised here.

Mr. BEDDOW. CCAH entered into an option agreement with Ghaith Pharaon to buy that bank. That was not a decision made by First American Bankshares board. CCAH entered into an option agreement, paid $80 million for the option and had the right at a later date to exercise the option on which $80 million would be credited on the purchase price or deny the option, not honor it, and the $80 million refunded to them.

I don't believe any due diligence was done prior to that option having been entered into. While the option was in effect, the company did do a great deal of due diligence. The then President of the bank, of the First American Bankshares, was sent down to Georgia and spent a great deal of time down there personally. He brought all sorts of teams down from the company to look at the Georgia bank.

Mr. ROTH. To look at these credit files, you mean?

Mr. BEDDOW. Auditors, at the credit files, processing people, all sorts of people down to inspect the bank and those things were done before the option was eventually exercised.

Mr. ROTH. Our records don't reflect that, so maybe you could give us information and that would be helpful, too.

Mr. BEDDOW. We can supply some records on that.

[The information referred to can be found in the appendix.]

Mr. ROTH. All five of you are very sophisticated and very knowledgeable people and I am sure it would be hard to pull the wool over your eyes. When and how did you find out that First American was owned by BCCI? Did your secretary come in and say, hey, I read something in the paper?

Mr. MATHIAS. Let me go back—I am afraid it will be repetitious of some things I have already said—First American is owned by—First American Bankshares is owned by First American Corp. 100 percent, which in turn is owned by CCAI which is in turn owned by CCAH. The question is who owns CCAH. We know that 28 percent of CCAH is owned by Abu Dhabi interests. That seems to be undisputed.

Beyond that, there are a list of registered stockholders, some of whom are alleged to have made loans from BCCI, subsequently defaulted on those loans, or perhaps the loans were fictitious in the first place, that is the possibility, but that is not generally admitted to be a fact.

In fact, it is in dispute under some circumstances. And all of this, of course, came to light in the relatively recent past.

Mr. ROTH. But Senator, to be more specific, we know now that First American is owned by BCCI. You didn't know this when you first came on the board?

Mr. MATHIAS. We know that—you know that BCCI is claimed to have had a stock interest in CCAH. That is what we know. We don't know how much it is.

The Federal Reserve believes that it is more than 25 percent of the CCAH stock. But until all of these actual questions are resolved, it is pretty hard to say what BCCI owned, whether they owned 25 percent, or more, or less. I appreciate the fact that you asked the question, because it is really central to understanding what the difficulty is here.

Somebody some day is going to have to determine this, but it is going to require facts and figures and information that has not been made available.

As I testified earlier, the liquidators, the people put in charge of BCCI by the courts in London and in Luxembourg have never seen the shares of CCAH stock; at least that is what they tell us.

So where are those shares? Who does have them?

Who does, in fact, own them? Those are legal questions that are yet to be resolved. And if you want to know who owns First American, it is First American Corp., and then on up the chain of holding companies.

But when you get to the end of that chain, you are really jumping off into a very murky situation.

Mr. ROTH. Well, you know, Senator Mathias, I have respected you for a long time; I have worked with you when you were in the Senate. I really didn't get my question answered.

There is a big fog there, a big smokescreen in saying, hey, we don't know what the facts are.

Mr. MATHIAS. Right. That is the situation. We have endeavored to find out exactly what it is.

Mr. WYLIE. Will the gentleman yield on that point?

Mr. ROTH. Well, I will yield, yes.

Mr. WYLIE. That is the point I was attempting to make a little earlier in a little different way. We get up here at the top with Creditor and Commerce American Holdings, and then everything goes off into space.

There is a fog there, and I have a feeling that the other box at the top ought to be BCCI. I think that is the point the gentlemen is making.

Mr. MATHIAS. And that is the way it may turn out. I can't guarantee you one way or another.

You asked us a question of what do we know. We know that these allegations have been made. We know that——

Mr. ROTH. But Senator, I mean really, when we are talking about buying the bank in Georgia, there are millions of dollars changing hands, going to BCCI. BCCI is looking at resumes, and so on.

You are very sophisticated people. Didn't you at one time turn to Mr. Beddow and say, something is going on here, we've got the check into this.

Mr. MATHIAS. Well, since you asked me, I can tell you that this happened before I became a member of the board, both the Georgia acquisition and the New York acquisition. So I had no personal knowledge of how those acquisitions occurred or what reason they occurred.

Mr. ROTH. Maybe I should ask Mr. Beddow.

Didn't you at one time turn to these other members and say, there has got to be something wrong here. I mean business just isn't run this way.

Mr. BEDDOW. If you are speaking of the National Bank of Georgia purchase, Mr. Roth——

Mr. ROTH. If that were the only one, I might say "well, maybe," but there are so many of these other things.

Mr. BEDDOW. Well, let me speak to that acquisition. That acquisition was negotiated at a higher level than Bankshares.

CCAH entered into the option agreement to buy, and the $80 million for the option agreement paid at that level. That was not a Bankshares decision.

CCAH then gave that option, or the $80 million prepaid to Bankshares.

We were led to believe that the stockholders wanted to acquire that bank for strategic reasons. They gave Bankshares all of the money it took to acquire it, and so we acquired it.

Mr. ROTH. Thank you.

I see my time is up; I will just make this observation, Mr. Chairman.

It seems to me from what the board is telling me, if I understand this correctly, that but they don't know who owns this bank.

When you say "I don't know BCCI," I am not clear on what your answer means.

The CHAIRMAN. Well, I think the gentleman, seriously speaking, has every reason to be asking the questions and to feel quite dissatisfied; it is still unresponsive. You know, when I grew up, one of my pals was the grandson of a family that had come from Georgia, and we called his grandfather Grandpa Hade, and he had a saying. He said, "well, if you want to avoid suspicion, don't stoop in the middle of the watermelon patch to tie your shoe strings."

So you know, you can't avoid suspicion, gentlemen, but you know, these are the questions.

And I don't think the intent is to try to impeach you gentlemen, but to have us the knowledge and information as to how operations have come about, based on a system of a board of directors of financial institutions. And we get the contradictory answers; we have the dictation showing clearly some of the transactions.

But anyway, I shouldn't interrupt, because we ought to continue.

I recognize Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

Mr. Scoffone, in the 1986 memo that has been referred to earlier by the gentlemen from Texas, and also the gentleman from Virginia, you indicated, and I quote, "That in summary, this transaction would be highly beneficial to the present owner of NBG, Mr. Pharaon. The bank would be sold at a significant premium over both national and local median prices." That is a quote in your memo.

Is that correct?

Mr. SCOFFONE. That is correct.

Mr. SLATTERY. Were you aware that Mr. Pharaon was in serious financial trouble at the time of the First American purchase of NBG?

Mr. SCOFFONE. I seem to recall reading in the press that, yes, he was in financial trouble.

Mr. SLATTERY. So you were aware?

Mr. SCOFFONE. Yes.

Mr. SLATTERY. Were you aware that Mr. Pharaon was one of the largest shareholders of BCCI at the sale of NBG to First American?

Mr. SCOFFONE. No, I was not.

Mr. SLATTERY. You were not aware of that?

Mr. SCOFFONE. No.

Mr. SLATTERY. I find it really hard to understand why First American was so anxious to give Mr. Pharaon such a good deal on the sale of NBG. Was First American forced to purchase NBG by BCCI?

Mr. SCOFFONE. No. Not to my knowledge.

Mr. SLATTERY. Do you have any knowledge of any attempt by Mr. Abedi to encourage either Mr. Clifford or Mr. Altman to acquire NBG?

Mr. SCOFFONE. I have no knowledge of that, no.

Mr. SLATTERY. Did you hear of anything like that?

Did Mr. Altman ever tell you that Mr. Abedi was interested in the National Bank of Georgia?

Mr. SCOFFONE. I don't recall. Mr. Altman and Mr. Clifford would travel to London to meet with the shareholders representatives, and from time to time they would advise us of that, and I don't recall exactly if that ever came up in a conversation.

Mr. SLATTERY. You, Mr. Scoffone, though you were doing the numbers here, and I find it interesting that you would be so concerned about the seller when you were really working for the buyer. Can you shed some more light on that?

Mr. SCOFFONE. Yes. At the time it was my understanding that Gaith Pharaon was getting two bids on the bank, one from us and one from NCNB. I don't have any confirmation of that, but that is what I was informed of.

And so what I tried to do was structure a deal to—that would—Mr. Pharaon would accept over the NCNB transaction. We were very interested in getting into the Atlanta market; it is a market similar to the Washington market.

It is a financial center of the Southeast, and so we were very interested in getting into that.

And as a side note, we did own the National Bank of Georgia prior, and it was a part of the First American family way back when, prior to 1975.

Mr. SLATTERY. In trying to make sense out of all this, when we realized that Mr. Pharaon, who owned the National Bank of Georgia, was also a key shareholder in BCCI, who we now know shareholders of BCCI were also the same shareholders, at least some of them, with the Credit and Commerce American Holding operation.

So if Mr. Pharaon owned the National Bank of Georgia, then he was getting a sweet deal in the sale to First American, which was owned by an entity which he also had an interest in, and all this makes sense.

It is sort of like taking money out of one pocket and putting it in the other pocket. Isn't that a pretty accurate description of what happened?

Mr. SCOFFONE. Yes, in hindsight, but if you didn't have——

Mr. SLATTERY. Yes, in hindsight.

Mr. SCOFFONE. Access to all the facts that you just related to at the time the transaction was consummated, I would have to say no.

Mr. SLATTERY. Mr. Scoffone, is it your testimony today that you had no knowledge, none, of any attempt by BCCI to encourage First American or any one employed by First American to acquire National Bank of Georgia; is that your testimony today?

Mr. SCOFFONE. I am not quite sure—you used the words encouraged. If Mr. Adham and Mr. Clifford went to London and met with Mr. Abedi and Mr. Adham to discuss this transaction, yes, they may very well have been encouraged to do the transaction, but I am just not aware of any conversation between Mr. Clifford, Mr. Adham, and Mr. Abedi and any of the shareholders.

Mr. SLATTERY. So you don't have any knowledge then; is that what you are telling me?

I want to be very specific here.

Mr. SCOFFONE. That is right.

Mr. SLATTERY. You don't have any knowledge of any attempt by BCCI to influence the acquisition of the National Bank of Georgia?

Mr. SCOFFONE. I want to know and say if there was any influence it was between Mr. Clifford and Mr. Altman and BCCI and Mr. Abedi. I am just not privy to any of those conversations.

Mr. SLATTERY. Well, did Mr. Altman come back and say to you that Mr. Abedi is interested in these banks, or was there any indication that he was from Mr. Altman?

I know you may not have been in the meetings in London, but did you have any knowledge, or did you have any conversations with Mr. Clifford or Mr. Altman that would indicate that they were being encouraged to acquire the National Bank of Georgia?

Mr. SCOFFONE. Yes, I was.

I was informed that the investors were interested in acquiring the National Bank of Georgia.

Mr. SLATTERY. And the investors were who?

Mr. SCOFFONE. Were the shareholders of CCAH.

Mr. SLATTERY. Which were also the shareholders of BCCI as we now know.

Mr. SCOFFONE. Yes, as we now know, yes, that is correct. One point I do want to make clear is that nobody——

Mr. SLATTERY. One of the principal key players, of course, in all this is Mr. Abedi who is the president and the cofounder, he owns and controls in effect BCCI, and he also was the man that you knew, Mr. Altman and Mr. Clifford, were reporting to; is that not correct?

Mr. SCOFFONE. Yes, Mr. Clifford and Mr. Altman would go to London to report to the——

Mr. SLATTERY. Owner of and the cofounder of BCCI?

Mr. SCOFFONE. As the financial advisor to our shareholders. That was the position that we were told he was in.

I would like to make one point clear though, that up until early 1991, I was not aware, and I don't believe any of these other gentlemen were aware, of the exact names of the shareholders of CCAH.

Mr. SLATTERY. Were there any other banks in the Atlanta area that were looked at by First American?

Mr. SCOFFONE. Not to my knowledge, no.

Mr. SLATTERY. Don't you think it looks like that Mr. Pharaon could have been the connection here as we look back now?

Mr. SCOFFONE. Yes, it does look that way, yes.

Mr. SLATTERY. The fact that he was involved in both ends of the transaction, in effect.

Mr. SCOFFONE. As it appears today, yes.

Mr. SLATTERY. I have a question for the rest of your, and I would start with Mr. Mathias and Mr. Beddow, also.

Many of us would like to believe, Mr. Clifford and Mr. Altman, that I come back to one central point, I suppose, and that is, who hired Mr. Clifford, and the answer to that question, according to Mr. Clifford's testimony, was Mr. Abedi, representing unknown shareholders, supposedly.

And then the question is, who could fire Mr. Clifford?

And we never really got a clear answer about that.

I am just curious. You men were all members of the board of directors. Who could fire Mr. Clifford?

Mr. STAUFFACHER. May I insert something there?

Mr. SLATTERY. Yes.

Mr. STAUFFACHER. There is a significant chronology on what happened to Mr. Abedi, and what happened to people that he represented, all off-shore people, incidentally. It became our understanding that they were no longer representing—Clifford and Altman were no longer representing the lead investors in Abedi's undertaking. Another law firm had assumed that role, and this, I think, has to be part of your information.

Mr. SLATTERY. Well, here is my concern. I mean I have been on the board of directors of a management myself, and——

Mr. STAUFFACHER. As have I.

Mr. SLATTERY. And I am just confounded by this proposition that you folks as members of the board of directors, one, apparently did not know who could fire your chairman of the board.

Mr. STAUFFACHER. Well, it was——

Mr. SLATTERY. You folks could not apparently; is that true?

Mr. Beddow, help me understand what was going on here.

Mr. BEDDOW. Mr. Clifford was elected by the shareholders, and it would be my understanding——

Mr. SLATTERY. You testimony is you don't know who the shareholders were.

Mr. BEDDOW. They were elected by shareholders, and it would be my understanding that only the shareholders could replace him as a director of CCAH.

Mr. SLATTERY. But did none of you then inquire as to the person—you know, shareholders just are people, ultimately. And didn't you ever wonder who had the authority to fire the man that you were reporting to and advising?

It seems so obvious. I mean I can't—help me understand this.

Mr. SCOFFONE. That question has come up many times over the past 9 years. I have personally asked that information, and that information has been not given to me.

Mr. SLATTERY. Well, who did you ask?

Mr. SCOFFONE. I asked Mr. Clifford and Warnke law firm——

Mr. SLATTERY. You don't ask the Clifford and Warnke law firm; did you ask Mr. Clifford and then Mr. Altman?

Mr. SCOFFONE. I probably asked Mr. Altman. I was informed that the names of those shareholders were held in confidence; the Federal Reserve has that information, and the shareholders do not want to have their names released.

Mr. SLATTERY. But the Federal Reserve did not have that information.

Mr. SCOFFONE. Yes, they did.

Mr. SLATTERY. Did they?

Mr. SCOFFONE. Yes, they did.

Mr. SLATTERY. Did you check then to find out?

Mr. SCOFFONE. That information, it is my understanding was filed with the Federal Reserve at the time of the acquisition of Financial General.

Mr. SLATTERY. Now, I am going to come back to Mr. Beddow, and I notice my time is out also, and I want to be sensitive to that. But help me understand this more completely.

I am still confounded. I don't understand how people of your stature would not know for sure who could pull the plug on your chairman of the board.

Mr. BEDDOW. Well, I can say the body of stockholders could do it. Are you asking me who the body of stockholders were?

Mr. SLATTERY. If you wanted to fire the guy that you are reporting to and as directors, you didn't like what he was doing and you wanted to get rid of him, who in the world were you going to call? How would you have called?

Mr. BEDDOW. The stockholders had the authority.

Mr. SLATTERY. But who would you have called?

Mr. KANJORSKI. Will the gentleman yield, Mr. Slattery, just 1 second?

Mr. SLATTERY. I would like to get an answer to this question, if I could.

The CHAIRMAN. The time of the gentleman has expired.

Mr. STAUFFACHER. Do you understand that? There was a shift. Mr. Abedi was no longer the man who represented the Middle Eastern interests. It shifted to another group. Is that clear?

Mr. SLATTERY. Well, it is apparently clear. I mean, you are telling me that Mr. Abedi apparently at one time, he is the cofounder of BCCI, and then at sometime you apparently didn't know who in the world to call.

Mr. STAUFFACHER. Abedi got sick, became ill or whatever, and the head man of Abu Dhabi became the dominant individual.

Mr. SLATTERY. The head—OK.

Mr. MATHIAS. Mr. Chairman, the answer to Mr. Slattery's question, it seems to me, is really what happened, because "the proof of the pudding is in the eating."

We got to a point where the chairman was obviously not doing the job that was necessary for the bank to be done. I went to him, and I told him, and that started the process by which he was removed from the chairmanship. That was done within the board of directors.

Mr. SLATTERY. Well, Mr. Chairman, I am very sensitive that my time has expired and other members may have other questions, but elaborate on that, if you would, Senator Mathias, because you went to Clifford, you are telling us, and said, "You have trouble." Now, basically he resigned. Is that what happened?

Mr. MATHIAS. Yes.

Mr. SLATTERY. So even in the process of his resignation, did you ever determine who had the authority to fire him?

Mr. MATHIAS. Obviously, the directors of the board of Bankshares could have removed him as chairman of that board. And that would have happened I think if he had not resigned.

Mr. SLATTERY. OK. So you folks could have removed him. Is that your testimony?

Mr. MATHIAS. As chairman of the board.

Mr. SLATTERY. You could have removed him as chairman of the board. Notwithstanding the agreements that he had with Abedi that he couldn't be fired for 5 years, I believe?

Mr. MATHIAS. I was certainly not a party to any such agreements.

Mr. SLATTERY. Which again raises this basic question, that he had this sort of no-fire clause contract for 5 years or a period of time with Mr. Abedi and those people, and then you know, on the board of directors, and apparently you had to honor this no-fire agreement that he had.

I am just curious how all this worked together.

Mr. STAUFFACHER. Abedi went out of the picture.

Mr. SLATTERY. Then who came into the picture?

Mr. STAUFFACHER. Other men other than Abedi.

The CHAIRMAN. Mr. McCandless.

Mr. MCCANDLESS. Mr. Chairman, I apologize for having departed. I am trying to head off some subpoenas being issued to another department, being issued to another committee, and we were negotiating with the Justice Department. Hopefully, we have successfully concluded.

The CHAIRMAN. It is no bill collectors?

Mr. McCANDLESS. No. I am not one of those that bounces checks, Mr. Chairman.

Mr. Adams, you were with Mr. Clifford and Mr. Altman during the regulatory proceedings involving the purchase of Financial Bankshares. And, Mr. Beddow, you have also been with the bank since the 1970's. It appears to me that you both recall the details of the takeover attempt that occurred 10 years ago.

Financial General shareholders at that time alleged that BCCI was the actual party that was trying to gain control of the bank. I am sure that you also knew of the statements made by Mr. Clifford that BCCI had no role in the acquisition, and would have no role in the future of First American Bank. You were also probably aware that the bank regulators felt strongly that BCCI should have no involvement in your bank.

Now, I have a couple of questions, if I am accurate in my statement. Are there any inaccuracies there, Mr. Adams or Mr. Beddow?

Mr. ADAMS. I should perhaps clarify that my role—I was at the First American Bank of Maryland. I was not even on the board of First American of Maryland, and my only involvement in that process is I did attend a meeting with the Maryland State Bank Commissioner with Mr. Clifford and Mr. Altman in which the matter was discussed.

Mr. BEDDOW. I was at Financial General at that time, and was involved in all of those matters. It has been a long time ago. I haven't read the documents, but I have a pretty clear memory of it.

Mr. McCANDLESS. Well, let me try these on for size and let's see what we can do.

Why then did your bank establish extensive banking relationships with BCCI, including vouching for BCCI letters of credit when no other bank would?

Mr. BEDDOW. We developed a relationship with BCCI because at that time they were reputed to be doing well and were doing business with a lot of other banks, doing the same kinds of business with a lot of other American banks that we were doing with them.

Our stockholders, many of them, we understood had an interest in BCCI, and in fact they were helping us get some business from BCCI.

Mr. McCANDLESS. Didn't it kind of seem unusual to you that First American Bank of New York was a virtual sister bank to BCCI? Didn't it raise any eyebrows that your New York bank was run by former BCCI employees?

Mr. BEDDOW. The bank was not run by former BCCI employees. As I understand, there were two people out of the office of core at the New York bank who had been former employees at BCCI. The president and CEO of the bank was not a former BCCI employee.

Mr. McCANDLESS. My understanding, maybe the record is incorrect that I have been privileged to read, but that there were daily contacts between officers of the bank in New York and BCCI in London.

Mr. BEDDOW. I have no information on that. There were these two officers at the bank who had formerly worked for BCCI. Whether they made contacts with BCCI in London frequently, I have no knowledge.

Mr. McCANDLESS. Thank you.

On another quick matter with the time I have, it is my understanding that as directors of a bank, that you as directors must personally pass upon any loan made to someone who is a stockholder.

Am I correct in that assessment? Is there any incorrectness?

Mr. BEDDOW. Yes, that is certainly correct. We are directors of the holding company. Individual banks make loans, and any loan to an insider has to be approved by the full board of directors of that bank. And an insider is defined as a person who owns I think more than 10 percent of the stock of the company.

Mr. McCANDLESS. Given that as a base then, wouldn't it be essential if you were to perform your duty correctly, that you knew the stockholders and could then pass judgment, because you would need to know who is a stockholder and who wasn't, if you were going to perform that loan function audit?

Mr. BEDDOW. The bank boards would need to know either that the person they were lending money to was a local person and was clearly not a stockholder of CCAH, or it would need to know if there was some unknown stranger, just really what his relationship was.

Our banks by and large have loaned, made loans in their own market areas, and made loans to people they know, have known for a long time, had no reason to inquire whether somebody living in northern Virginia all his life was a stockholder.

Mr. McCANDLESS. Any of you may wish to comment on this, and this would be my concluding question, Mr. Chairman, a lot of speculation out there. Senator Mathias took a great deal of time to try to show the credibility of the basic bank operation itself, and I respect him for that assessment, that one of the ways by which the organizational process was able to function a little may be out of the normal orbit was that there were favorable loans given to certain political types for various and sundry reasons who had a considerable amount of influence on the regulatory and other aspects of the governmental oversight.

As a result of that, some of the things that have developed were caused by that lack of direct, on-hand supervision, because of some possible political intervention compromise or involvement.

How would you gentlemen react to that?

Mr. MATHIAS. Are you suggesting that there were such loans in this situation?

Mr. McCANDLESS. I am saying there is conversation out there, and I am asking you for any comment you might wish to make on it.

Mr. MATHIAS. Do you have any names or any dates or transactions in mind?

Mr. McCANDLESS. I would be happy to try to acquire that information and submit it to you if you would care to answer.

Mr. MATHIAS. I am personally not aware of loans that would fall in that category, but if you have any information that you could give us, we would be glad to take a look at it.

Mr. ADAMS. Just to be clear, we have tried to look at that and we don't see anything. And if anybody has anything specifically they would like us to address, we would be very pleased to do it.

Mr. McCANDLESS. If I am successful in digging up some allegations that have some names, dates, and so on and so forth, the committee could expect a response from you?

Mr. MATHIAS. Yes, absolutely.

Mr. ADAMS. And our response is that such loans have not been made to influence policy, that these allegations are totally unfounded, and we would love an opportunity to get to the bottom of one of these comments, if we could.

Mr. McCANDLESS. Thank you very much, gentlemen. My time has expired.

The CHAIRMAN. Thank you.

Mr. Kanjorski.

Mr. KANJORSKI. Thank you very much, Mr. Chairman.

Mr. Chairman, if I may make an observation. This committee recently passed the Treasury-recommended banking reform bill which takes into consideration financial service holding companies and diversified holding companies.

And after hearing a sophisticated board of directors come here and tell us they don't even know who is involved or owns the financial holding company, I think it is the best evidence in the world we ought to examine and relate another holding company situation up there, that for all intents and purposes, we will never know who owns the bank service industries in America if these sophisticated gentlemen can't possibly tell us who owns their bank or who owns their holding company.

Gentlemen, I just make the observation, this would be hilarious if it weren't a reality. And your institution and its relationship as established so far to BCCI, to my satisfaction, leads me to believe that when you still in your testimony, Senator, use the word "alleged," and when you relate to us that you are not familiar with who you could fire or who you could hire, you really shake me to my core in terms of just what was structured out there.

Mr. MATHIAS. I don't want to interrupt you, and I don't want you shaken to the core either. Maybe we can stabilize you a little bit.

The names of the stockholders are known. The committee has them. The chairman has them.

Mr. KANJORSKI. But did the bank board have them?

Mr. MATHIAS. The Federal Reserve had them.

Mr. KANJORSKI. Did the bank board have them?

Mr. MATHIAS. The bank board has them.

Mr. KANJORSKI. You know who your owners are. Are they in fact the real stockholders?

Mr. MATHIAS. Now, there you have the question which I discussed with Mr. Roth.

Mr. KANJORSKI. So that shows the failure of the——

Mr. MATHIAS. The Federal Reserve says that at least 25 percent of those registered stockholders have entered into the loans and defaulted on the loans. Now you are talking about something which is a disputed fact, and the courts are full of disputes of fact of this sort all over this country, and I am sure all over the world.

People say that they don't owe the money that claims are made on them to repay. That is the kind of situation you are in. And I think you are putting a test on this board of directors which is really beyond our capacity to meet, because——

Mr. KANJORSKI. Let me ask you this simple question, Senator. When you purchased your stock, if you owned any stock——

Mr. MATHIAS. I didn't. Let me make that clear at the outset.

Mr. KANJORSKI. Did any of the other gentlemen here buy any stock?

Mr. MATHIAS. No current member of this board owned any stock.

Mr. KANJORSKI. OK. Very good.

Those people that did buy stock, wasn't the question asked by this board, particularly of your chairman and your president, where did you get that money and under what conditions? If you had asked Mr. Clifford and Mr. Altman where they got the millions of dollars to buy that stock, they would have either had to commit perjury under oath if you asked them to make an affidavit, or you would say we have a problem here, gentlemen. We are merging our leadership with a foreign bank.

Mr. MATHIAS. And let me tell you that the minute we heard that they had both stock, that is exactly what Mr. Stauffacher and I did. We went to Mr. Clifford and we said tell us about this transaction.

Mr. KANJORSKI. And did he relate to you that he had a nonresource, multimillion-dollar loan with a foreign bank where he had absolutely no liability on that loan, and still had the benefit of that money to speculate with the value of your stock, whether it would go up or down?

Mr. MATHIAS. He told Mr. Stauffacher that he had borrowed the money from BCCI.

Mr. KANJORSKI. And was that immediately reported to the Federal Reserve?

Mr. MATHIAS. The Federal Reserve knew it before we did.

Mr. KANJORSKI. OK.

Now, and is it my understanding that our law allows——

Mr. MATHIAS. The Federal Reserve didn't report it to us, I might say, which might have been helpful.

Mr. KANJORSKI. Well, I assume that the treasurer reported to you. He has a fiduciary relationship to tell you, doesn't he? Once he goes to Mr. Clifford and finds out the transaction, we can impute to you everything he knows. He is your officer.

Mr. MATHIAS. He didn't know it.

Mr. KANJORSKI. I thought you said immediately after the transaction of this purchase of stock, the treasurer talked to Mr. Clifford to get full disclosure of these loans.

Mr. MATHIAS. No. I said I talked to him.

Mr. KANJORSKI. And he disclosed to you at that period of time, just when you were starting to come on the board, that he had a nonresource loan for multimillions of dollars from a foreign banking corporation?

Mr. MATHIAS. No. Let's go back over this again.

When we were aware of the fact that Mr. Clifford had purchased the stock, Mr. Stauffacher and I being the two outside directors of the company went immediately to Mr. Clifford to find out what the facts were.

Mr. Clifford told us at that time that he had purchased the stock, and that he had financed the purchase by a loan from BCCI.

Mr. KANJORSKI. Did you get the terms of the loan, sir?

Mr. MATHIAS. I don't think he told us the details of the terms of the loan at that time.

Mr. KANJORSKI. Did you know his net worth and wherewithal that he had that amount of cash to support a loan, or was in such a financial position to support that loan?

Mr. MATHIAS. I have no information about Mr. Clifford.

Mr. KANJORSKI. Did you know the amount of the loan?

Mr. MATHIAS. Yes, we knew the amount.

Mr. KANJORSKI. And what was that amount, as best you know?

Mr. MATHIAS. Well, the original purchase was about $15 million.

Mr. KANJORSKI. All right.

And did that at all——

Mr. MATHIAS. There were three purchases as it turns out.

Mr. KANJORSKI. That was the total amount, $15 million.

Did you instruct anyone, or did you in any way inquire as to where he came upon the money and under what conditions or terms?

Mr. STAUFFACHER. This had all been done and repaid before we came on the board.

Mr. KANJORSKI. I understand his purchase was in 1986 and sold in 1988.

Mr. STAUFFACHER. That is right. I came in on——

Mr. KANJORSKI. I understood the Senator to testify that he was on the board in 1987.

Mr. MATHIAS. That is right.

Mr. STAUFFACHER. But the purchase had been made in 1986.

Mr. KANJORSKI. Once you found out about it, though, did you inquire?

Mr. MATHIAS. Well, in 1991 is when I found out about it, and I immediately inquired. I went immediately to Mr. Clifford and I said, "What's the story?"

Mr. KANJORSKI. OK.

So you are a member of the board of directors, you got on the board in 1987, this bank didn't have thousands of shareholders, it had 20 or 25, aren't I correct?

Mr. MATHIAS. That is right.

Mr. KANJORSKI. And every one of them had strange addresses, but two had Washington, DC. So it would have been pretty evident to me that we got two Americans here and all other foreigners that are owners of the bank and these two Americans happen to be the president and the chairman of the board.

Didn't anyone at that point looking at that disclosure find out under what terms and conditions?

Mr. STAUFFACHER. Our auditor was the man who disclosed the incident to us.

Mr. KANJORSKI. In 1987?

Mr. STAUFFACHER. No, no, no, in 1991.

Mr. KANJORSKI. Where were you between 1991 and 1986, 5 years, when the purchase was made?

Now, gentlemen——

Mr. STAUFFACHER. I was in a lot of places, but——

Mr. KANJORSKI. You have to have reorganization meetings every year, don't you, in your bank?

Don't you every year reorganize as a board of directors?

Mr. STAUFFACHER. Yes, we do, and——

Mr. KANJORSKI. Isn't it common in doing that that someone certifies who the shareholders are, and provides the board with a list?

Mr. MATHIAS. Yes, exactly. And we have testified several times here today we are owned 100 percent by First American Corp. [FAC], when they had their organizational meeting, they testify, the shareholders then are elected by the CCAI.

Mr. KANJORSKI. So what was disclosed to you you are saying is CCAH——

Mr. MATHIAS. That is right.

Mr. KANJORSKI. A 100 percent. Did you think of asking——

Mr. MATHIAS. No. We are saying that when the First American Bankshares is elected, it is elected by FAC, First American Corp., that is as far as it goes.

Mr. KANJORSKI. So you were only looking at First American Corp.; after that, you didn't inquire who owned them?

Mr. MATHIAS. At that point, that is correct.

Mr. STAUFFACHER. These shares were in CCAH. That is a different—they were not First American Bankshares.

Mr. KANJORSKI. OK.

So the disclosure to the board in 1986, 1987, 1988, 1989, 1990, and 1991 to CCH owned these shares, and at that point you felt you had no responsibility to find out who owned CCH?

Mr. STAUFFACHER. We aren't directors of CCAH.

Mr. KANJORSKI. Do you have a fiduciary relationship?

What happened if the Soviet Union owned CCH; do you think we would be interested in knowing that?

Mr. STAUFFACHER. I don't know.

Mr. KANJORSKI. You don't know?

So going back to my original statement when I opened, when the Treasury set us up recommending us as a diversified holding company, financial services holding company, and then banks, we are in trouble. If we pass that bill in the Congress, we have really created a monster, because Japan can buy us, the Soviet Union can buy us, any power in the world——

Mr. MATHIAS. You are overlooking the fact that all of this is a matter of record with the Federal Reserve.

Mr. KANJORSKI. The Federal Reserve doesn't have a fiduciary relationship to your shareholders or to anyone, you are the individual that does.

Mr. MATHIAS. They have a register, which is not——

Mr. KANJORSKI. Senator, do you suspect that the Federal Reserve sits down every year and looks at the 16,000 banks in this country, examines who owns their shares, then knows the holding companies and examines who owns their shares, all the way up, every year?

You have been around here too long, Senator, to think that we have any bureaucracy that even has the capacity to do that.

We really, it seems to me, in giving this franchise of deposit insurance to do business in the community of the United States, we rely on the responsibility of the board of directors of those institutions, that they are only going to ask reasonable questions, but when they get covered answers by holding companies, they are going to examine, in fact, whether or not there is any manipulation

or any problem that they are dealing with there that they should know about.

Isn't that reasonable, or are you telling me——

Mr. MATHIAS. It is not only reasonable, but that is exactly what happened.

Mr. KANJORSKI. But you didn't check out the holding company.

Mr. MATHIAS. I think we did.

Mr. KANJORSKI. For 5 years you didn't, Senator. The only time you checked it out was when the *Washington Post* told you you had a problem.

To my reading, now maybe I am wrong, and I don't want to condemn you on it, but no action was taken.

When did you and Mr. Stauffacher take a walk down to talk to Mr. Clifford about his transaction?

Mr. MATHIAS. Virtually the minute we found out that the transaction——

Mr. KANJORSKI. How did you find out about it, in the public media, didn't you?

Mr. MATHIAS. No, that is not correct. We found out because as the chairman has suggested, and I think the chairman is so right in the remarks he made at the beginning of this hearing, that directors have a duty to be informed, and if they are not voluntarily informed, then directors—let me finish.

Mr. KANJORSKI. Yes.

Mr. MATHIAS. If the directors aren't voluntarily informed, they have to go out and seek the information.

Mr. KANJORSKI. What prompted you, Senator, to want to be informed?

What prompted you?

Mr. MATHIAS. The internal audit was done by Louis, and we sat down, Mr. Stauffacher and I sat down with him and we were asking him questions.

We wanted to know more about this relationship.

Mr. KANJORSKI. At what time? Can you give us a date on that, Senator?

Mr. MATHIAS. Yes. This was February of this year.

Mr. KANJORSKI. And we said, can you tell us, are there any circumstances in which there have been loans granted by First American, any one of the First American group of banks, to customers, patrons, of BCCI.

In other words, has there been any kind of preferable treatment?

And he said no, he had no record of that. And then to make sure that the bases were covered, we said, were there any loans similar kinds of loans that were granted to officials of First American by BCCI?

Mr. KANJORSKI. So let me stop you at that point.

Mr. MATHIAS. That is where the transaction——

Mr. KANJORSKI. At that point then the auditor had to know the trail of who the shareholders were of all these holding companies. He didn't find that our in February 1991; he must have known that beforehand; isn't that correct?

Mr. MATHIAS. That is correct, because as I testified earlier, he had been commissioned.

Mr. KANJORSKI. Did you all determine whether he first made that examination, or did he just make it in 1991? It would seem to me that——

Mr. MATHIAS. He began, as I think I previously said, early in 1990, to make this investigation, and he completed it at the end, and around the end of 1990.

Mr. KANJORSKI. Up until that time then, is this an inside auditor or an outside?

Mr. MATHIAS. Inside.

Mr. KANJORSKI. Up until that time, your own inside auditor never inquired into the relationship of the various stages of the holding companies; is that correct?

Mr. MATHIAS. What we were exactly commissioning him to do by that internal was to look at the whole relationship between First American Bank and BCCI; to look at all the transactions; to look at the wire transfers; to look at anything that might be evidential as to the——

Mr. KANJORSKI. I would understand that, and that was prudent at the time when we realized that BCCI was starting to get into trouble, but I am curious as to—if he doesn't know the relationship of this ownership of stock in your bank and the various holding companies. I don't know how—it sort of goes around in a circle and closes: I don't know, I don't know, I don't know, therefore, I can do nothing.

The CHAIRMAN. Will the gentleman yield to me, just to follow on this; because we have this dictation that does seem to be contradictory on its face.

Mr. Adams, in your response to question number 10, were you aware of BCCI loans to Mr. Clifford and Mr. Altman, please explain?

Your answswer: I became aware of the BCCI loans in July 1990 during the course of an internal audit review. On the other hand, Senator Mathias, I had no knowledge of any BCCI loans to Mr. Clifford and Mr. Altman until approximately February 1991, when I was advised of them by the First American auditor.

So how do you explain that?

I think——

Mr. STAUFFACHER. That is the interval that the auditor was working where Mr. Adams knew about it, but we had not been informed.

The CHAIRMAN. Well, but you are both members of the board.

Mr. STAUFFACHER. The board hadn't been informed.

The CHAIRMAN. Well, Mr. Adams is on the board.

Mr. STAUFFACHER. True.

The CHAIRMAN. And he is saying that he knew as of July 1990.

Mr. STAUFFACHER. He didn't volunteer that information.

The CHAIRMAN. Did you inform the rest of the board members?

Mr. ADAMS. No, Jim Lewis, who is our internal auditor, was performing an audit that was focusing on relationships with BCCI. He came across some wire transfers from BCCI to personal accounts of Mr. Clifford and Mr. Altman. And he reported that to me, and I instructed him to meet with Brian Yolles, who was the general counsel of the Metro Bank, and ask him for an explanation of these wire transfers.

That was done, and in the course of making those inquiries, Mr. Clifford and Mr. Altman wrote a memorandum that detailed the stock purchase transactions. In receiving the stock purchase transfer action memo, we were concerned first that there might be a Reg "O" violation.

We checked that. We were concerned that these shares had been properly reported to the Federal Reserve and we discovered that they had been reported, and at that point we documented the file with everything we had done, and had found no violations of any law or no lack of awareness on the part of regulators of the transaction and left it at that.

The CHAIRMAN. Well, I wonder, you speak of this memo that you received. Would it be possible to provide a copy of that memo for us?

Mr. ADAMS. I am sure you have it.

The CHAIRMAN. I don't think so. I will double check.

Mr. MATHIAS. If you don't, Mr. Chairman, we will let you have it.

[The information referred to can be found in the appendix.]

The CHAIRMAN. But the point I am asking is, why did not Mr. Adams communicate with the rest of the board at that point? In other words, obviously there were some questions here as to whether or not once that memo was received, both Mr. Altman and Mr. Clifford had complied with the law, and there was some fear there, I am sure.

It would seem to me that at that point, that disturbing situation would have been reported to the board, to the rest of the members, and I would say particularly the Senator.

Mr. WYLIE. Mr. Chairman, would you yield?

The CHAIRMAN. Yes, sir. I will be glad to yield to you. I know you have to leave.

Mr. WYLIE. Yes.

I have here a memo which says Bank of Credit and Commerce International, Society, Washington, DC, is headed by Mr. Sani Ahmad. It is to Richard D. Barrett from Selma Habib.

My question is, why would an unrelated foreign bank office be in the business of developing business for First American Bankshares? It says, it is not a full service deposit taking branch, but rather an information gathering office involved in developing business for First American Bankshares, Inc.

The memo also states that BCCI is—they refer to here as First American Bankshares as being like one of us, BCCI. Do you know about that memorandum?

Mr. MATHIAS. What is the date of it?

Mr. WYLIE. It is dated on June 16, 1986.

Mr. MATHIAS. I have no knowledge of it.

Mr. WYLIE. I would like to ask unanimous consent this be placed in the record at this point.

The CHAIRMAN. Certainly, without objection.

[The information referred to can be found in the appendix.]

Mr. WYLIE. Probably don't have any record of it. But there seems to be a deletion, a paragraph is deleted.

On the second page, and I am wondering if you could search your records down there and see if you might be able to find the original to see if that missing paragraph is in it.

Mr. MATHIAS. Who is it addressed to?

Mr. WYLIE. It is addressed to Richard D. Barrett.

The CHAIRMAN. May I suggest that we make a copy of that and provide it?

Mr. MATHIAS. Yes, if we could have a copy, it would help the search.

Mr. WYLIE. All right.

Thank you very much.

The CHAIRMAN. But if you do, you will make a diligent search and find it. I want to follow through here——

Mr. WYLIE. Thank you, Mr. Chairman.

The CHAIRMAN. Did I understand correctly, Mr. Adams, that Mr. Clifford and Mr. Altman sent you a memo?

Mr. ADAMS. No, they sent a memo to Jim Lewis or the auditor to complete his documentation of this transaction, which turned up in the review of BCCI activity.

The CHAIRMAN. Why were you selected to receive that, and then not have the others partake of that information? Because, obviously, in the case of Senator Mathias, once he was alerted, he immediately.

He was alarmed, but he says he didn't know that until earlier this year, 1991. The reason I am disturbed is that it shows that somewhere here we have a deterioration of what I would say is a corruption of the system that both regulators and the Congress or whoever in drafting the national policy have not much paid attention to in the last two, two and a half decades, where the whole role has changed, and it has to be addressed, particularly in today's world.

Mr. MATHIAS. Mr. Chairman, just to be completely fair to Mr. Adams, let me say that he and I had a conversation. This occurred in February 1991, which really led to my meeting with the auditors, so that I think Mr. Adams——

The CHAIRMAN. But had you had an inkling in July 1990——

Mr. MATHIAS. I would have gone right up like a rocket——

The CHAIRMAN. You see, that is what I am saying. Obviously, we have some compartmentalization within the board structure—it is a little bothersome. I am not trying to cast reflection on retrospect. I think at this point, it is 1:25, and I don't want to abuse either the patience or the courtesy that we owe our guests, the witnesses have been here very patiently, and they have tried to respond to our questions.

But neither do I want to prevent any member from following through. So would it be acceptable if I recognize members for follow-through questions for 3 minutes each? Would that be sufficient? Is that acceptable?

All right.

We have four members left besides myself. If we each were to take 5 minutes, it would take 20 minutes and we probably wouldn't be out of here until about a quarter of two, and I think that is straining a little bit. So why don't we try it.

I will recognize Mr. Armey for 3 minutes.

Mr. ARMEY. Thank you, Mr. Chairman.

I want to go directly to Mr. Adams, Mr. Beddow, and Mr. Scoffone. You were all part of First American before it was taken over.

You certainly, I am sure, were aware that Clifford and Altman were the lawyers for Abedi and BCCI.

Who told you that Mr. Clifford and Mr. Altman were going to take over running the bank? Who instructed you? Did they just walk in one day and start sitting down in the office and take over, or did somebody instruct you that they were going to take over the bank?

Mr. Adams?

Mr. BEDDOW. Let me speak to that. I was involved in that process.

Mr. ARMEY. If you can get directly to the question, because my time is limited.

Mr. BEDDOW. That was a long, drawn out process. We understood that people were buying stock——

Mr. ARMEY. I know. But on the day they walked in and sat down and took over an office and said we are in charge here, who backed them up? Who verified it? Why did you just let—I understand neither one of these people were bankers. They didn't know anything about banking. One of these folks was a youngster that took over the bank, was hardly dry behind the ears.

You are a banker for 20 years and this guy walks in and says, I am running this bank? Did you just say, OK?

Could I have walked in on that day and taken over the bank? Somebody had to tell you these guys have now taken over the bank, and I want to know who did it.

Did you get a letter? A phone call? Did you get a message slipped under your door? But somebody gave you the message, you accept this guy as the president of this bank. Who did it?

Mr. BEDDOW. There were a group of stockholders.

Mr. ARMEY. I know there were a group of stockholders. Did they send you a letter, and can I get a copy of the letter?

Mr. BEDDOW. No——

Mr. ARMEY. Did they call you on the phone? Can you tell me who was on the other—there wasn't some mysterious message from heaven. You had to get something; did you not?

Mr. BEDDOW. Mr. Clifford represented the stockholders——

Mr. ARMEY. We have gone through the whole business of the ambiguous stockholders in the fog before. Somebody had to give you a transmittal of information that you said, all right, this is not refutable.

Mr. Adams, were you happy to see this young guy come in and take over the bank that you had worked in for many years?

Mr. ADAMS. Well, I learned about it officially at a management meeting that announced it. But the answer to your question is there was a board of directors, there were shares voted, and the board of directors——

Mr. ARMEY. All right. So they took over the bank——

Mr. ADAMS. It was a corporate process that determined it.

Mr. ARMEY. I understand.

Mr. Chairman, I only have one more question, when did Mr. Abedi leave the country and tell you all to play dumb until he gets back?

Thank you.

The CHAIRMAN. Well, the gentleman still has time, because I don't count the response time. I just count the time it takes you to ask the question.

Mr. ARMEY. I am sorry, Mr. Chairman, but there is no sense in asking these people questions. Maybe under subpoena in a Federal court or something, you can get some answers out of these people, but this, quite frankly, is ridiculous.

Mr. MATHIAS. Mr. Chairman, I regret very much——

The CHAIRMAN. Will you yield to me? I must say that the rules compel the chairman to protect the integrity, the good name of the witness and members, and anybody else called here or subject to the jurisdiction of this committee.

The gentleman from Texas, my fellow Texan, is raising a question here as to nonresponsiveness that goes to the integrity of the witness, and I think that is to be regretted, and I would ask the gentleman to strike those words, if he will.

I think that we must not forget that this is a proceeding under our rules providing for investigatory processes. The rules we are operating now, which the House rules designate as rules 10 and 11, are very carefully crafted as a result of unhappy experiences, where the legislative branch, known as the Congress, abused its powers.

And we have a very intricate set of rules protecting all the rights of the witnesses that appear either voluntarily or through subpoena, and their right to the integrity of their character and their name and so forth.

So if the gentleman doesn't want to pursue any further questions, that is one thing. But to say that the gentlemen are, in effect, nonresponsive is another thing. It is a matter for the record.

If the gentleman is implying that perhaps they are, in effect, perjuring themselves, let me say that they are under oath; they have taken an oath.

Mr. ARMEY. Mr. Chairman, I have not implied that the gentlemen have perjured themselves. In order to perjure yourself, you have to have answered a question. They have not done so.

I am saying there is no sense in continuing to question these people, because you can't get an answer, and therefore, I relinquish my time.

The CHAIRMAN. Do you have any further questions, Mr. Moran?

Mr. MORAN. Thank you, Mr. Chairman. Let me address these to Mr. Scoffone.

What is the value, to the best of your knowledge, of the National Bank of Georgia?

Mr. SCOFFONE. I don't have that information. I can get it for you in just a second. Go ahead and ask some other question.

Mr. MORAN. I do want to see that, though, and what you would project, because I am still stymied by a letter that was sent from Mr. Altman to Mr. Swaleh Naqvi. We talked about this letter; in 1986, you were aware of this letter?

Mr. SCOFFONE. Not until it was shown to me today.

Mr. MORAN. Well, OK. It probably is that it is based upon your analysis; and Mr. Altman must have given you some indication, as senior vice president and treasurer of First American Bankshares, what was going on, because the purpose of this letter is to transmit

your financial analysis to Mr. Naqvi. And Mr. Altman says, in the analysis prepared by you, the stockholders' equity of National Bank of Georgia would be $93.9 million, considerably higher than the year and numbers on which we had been relying.

He goes on to say, "The transaction we structured contemplates $60 million in debt. It would be appropriate if BCCI itself wished to consider being a lender.

"I trust you will forward this information to Mr. Abedi." Then it includes the analysis that you made.

If you would tell me the value of the National Bank of Georgia in your best professional judgment now?

Mr. SCOFFONE. Book value as of August 31, which does not represent fair market value, is about $85 million.

Mr. MORAN. In your analysis, you estimated that the purchase price should be from $152 million to $161 million, based upon the various multiples that, as a result of analysis of 183 deals nationwide—118 for stock, 65 for cash. This is your memo.

Mr. SCOFFONE. Yes.

Mr. MORAN. So you estimate it would be $152 million to $161 million.

As senior vice president and treasurer of First American Bankshares, you clearly have some major fiduciary responsibilities for the money that is involved here, and it was First American Bankshares that owned National Bank of Georgia. The National Bank of Georgia is part of the structure under First American Bankshares.

You wound up paying $220-plus million for a bank that today is worth $85 million, and even under your most generous analysis, when I look at the numbers, I don't see why you wouldn't have made a more specific analysis then to take nationwide, the average of nationwide deals, and to get the multiple of book and multiple of first-quarter annualized earnings, because given your fiduciary responsibility, you wanted to get the best deal possible in terms of the purchase of National Bank of Georgia.

You would think—that is why I keep coming back to this, because there is something really strange here. So you say that, in my opinion, a fair purchase price for National Bank of Georgia would be approximately two and a quarter times book value. Now, that is not what you wound up paying for the bank, is it?

Mr. SCOFFONE. On that analysis, it was $211 million; by the time we transacted the deal, $227 million.

Mr. MORAN. For a bank that is worth today $85 million.

Then in your memo you say—and I mentioned this before—that you are estimating that $60 million could come from a third-party lender, such as BCCI. When we asked why you would pay such a high premium for a bank in Georgia, why you were so anxious to buy National Bank of Georgia at what appears to be an enormously high premium, you said that it is because you wanted to be located in the Atlanta area, it is a terrific market, and you talked about the Southeast and so on. But you never pursued any other banks in Atlanta; you only focused on one bank in Atlanta.

It seems to me that if Atlanta was such an important place to be located, why wouldn't you have looked at any of the many other competitive banks and made some comparative analysis of them?

Mr. SCOFFONE. At the time this transaction was being viewed, National Bank of Georgia was for sale. We were competing with NCNB to purchase this bank. That is the only answer I can give you.

Mr. MORAN. I don't have any interest in giving you a hard time. The problem is that the buck has to stop someplace, and you had the title as treasurer and senior vice president. So you have a substantial fiduciary responsibility not only to the stockholders, but also to the depositors of the banks under the First American Bankshares umbrella, and here you are recommending that you pay really an exorbitant amount for a bank that today is worth one-fourth what you paid for it.

And you are also, in your memo, recommending that BCCI, a foreign investor, play an absolutely essential role in the purchase. And yet you are very much aware of the fact there isn't supposed to be foreign ownership of banks. You are very much aware—without disclosures of—this is a very sensitive area.

You are recommending that BCCI provide the money, and then you are obviously very much aware of the fact that Georgia law had to be changed to make this transaction work, and you are recommending on this acquisition alternatives the best effort to change Georgia law to allow CCAH to acquire NBG within a year. We have information—we spent $1½ million today that—you must have known more than is immediately apparent, Mr. Scoffone, or you—it is inexplicable why you wouldn't have asked more questions.

I am not suggesting that you made decisions that were—that are illegal. I am not suggesting you made those decisions. But I am very much questioning the extent to which you complied with your fiduciary responsibility as treasurer and senior vice present of First American Bankshares to prudently handle that account, that responsibility.

Now, can you respond in any way on the record that would give some better understanding to what seems to be so inexplicable?

Mr. SCOFFONE. Congressman, I have worked for First American or Financial General for 25 years, and I believe I have always acted in a proper manner. I am aware of my fiduciary responsibilities, aware of my responsibilities to both stockholders and depositors.

There is nothing in this transaction or my involvement that would lead me to think otherwise.

[The letter and memorandum referred to can be found in the appendix.]

Mr. MORAN. Why wouldn't you have looked at other competing Atlanta banks—can you tell me that this was a fair price that was paid, $227 million for a bank, given the numbers that that bank showed in 1986, and given the fact that Georgia law had to be changed to allow CCAH to purchase it?

Mr. SCOFFONE. Let's go back to, in my opening sentence in the memo, Mr. Altman had asked me to do a particular project, and you have asked me to analyze the potential acquisition of the National Bank of Georgia, and that is exactly what I did with the facts I had at the time, to yield an opinion favorable to First American Bankshares, and that is what I did.

Mr. MORAN. We have, getting in these questions, a very limited functional role. In other words, nobody asks any questions, nobody uses their experience and judgment. They are told to do something, they do it. Don't ask any questions. I didn't know who BCCI was, and so on.

There must have been some reason why NBG would be purchased for $227 million. You must have known the background of the original Pharaon purchase. I guess your lawyer wants to advise you here first.

Mr. SCOFFONE. Would you continue with your question?

Mr. MORAN. Your analysis led to the purchase of NBG, the acquisition of NBG under the First American Bankshares Corp., an important element of the corporation for which you were treasurer and senior vice president.

So, this was a critical decisionmaking memorandum. Now, I am giving you a lot of—I am assuming, giving you a lot of credit, which I think is justified, that before $227 million is committed, before you make such an important acquisition, you would perform the normal financial analyses.

An obvious one would be to look at the other banks in the area. It would be to look at the history of a National Bank of Georgia. The National Bank of Georgia has a really checkered history at that point. You knew about Mr. Pharaon, you must have known about Mr. Lance and how NGB was going down. He was in debt. He got bailed out for twice the value of the stock.

You must have known all of these things. You are sitting in a critical place, where it is your role to make a judgment, to assume fiduciary responsibility of funds, to do a complete analysis.

It seems less fiduciary responsibility was given here than you would give with play money in Monopoly. I am giving you an opportunity to give as complete an understanding, a clarification, as possible on the record for how this occurred.

We will be talking with more people subsequently, but this is your chance to say, I did everything that I could have to exercise my fiduciary responsibilities, this is what I did, this is why I think $227 million was an appropriate purchase, because it is not clear in the information we have, and it is certainly not clear on the face of it.

Do you have any further comment?

Mr. SCOFFONE. I really don't know how to respond to that. The memo was clear on its face. It sets out all the facts involved in the transaction. It is a second series in a memo written in October 1985 which discusses a more detailed analysis. The company was interested in getting into the Atlanta market.

There were very few banks available. This bank was available, so Mr. Altman asked me to make analysis of it.

Mr. MORAN. Did you ever make any comment with regard to 227——

The CHAIRMAN. Would you yield?

You referred to a 1985 memo, would you make that available for the committee?

Mr. SCOFFONE. Yes, sir. I assumed that you all had that information.

The CHAIRMAN. I am not that sure that we do, and to make sure, I was going to ask if you could let us have a copy of that at the proper time.

[The material referred to can be found in the appendix.]

Mr. MORAN. Within the board of directors, to the board of directors, did you ever raise a comment that this appears to be a pretty high purchase price for the National Bank of Georgia, since the board of directors would then be responsible for the management of National Bank of Georgia as well as First American Bank of New York and the three metro holding company banks, did you make a comment with regard the real value of the bank versus what we pay?

Mr. SCOFFONE. There may have come up in board meetings discussion of this transaction, but I don't recall specifics.

Mr. MORAN. Did any member of the board question how you were going to change Georgia law to allow purchase of National Bank of Georgia within a year?

Mr. SCOFFONE. I believe Mr. Altman and Mr. Clifford knew that. I don't know whether the other members, I can't speak for them.

Mr. MORAN. The board members will be responsible for the acquisition of it. There is a serious allegation that $1.5 million was spent to essentially buy the Georgia Legislature. That is an allegation, granted, but a lot of money was spent. The law had to be changed in a year, and a tremendous amount of money was contingent upon that law being changed.

It seems to me that questions should have been raised during that period of time; are we doing the right thing with regard to the money we are responsible for, and with regard to our responsibility as directors of this board that is going to be acquiring NBG.

Thank you, Mr. Chairman.

The CHAIRMAN. I would like to offer for the record and ask unanimous consent that an article appearing in today's *Atlanta Constitution*, "BCCI Tried to Change State Law, How Speakers' Trip Linked to Bank Lobbyists," be allowed in the record. It has some interesting contents. What I can do at this point is offer it for the record and then ask the staff to make duplicate copies.

Mr. MORAN. If you would put it into the record along with this question.

The CHAIRMAN. I ask unanimous consent for that following your question. Mr. Riggs?

Mr. RIGGS. I will try to be brief. I think I did very punctually observe the 5-minute limit earlier today, so I might ask the Chair for us indulgence and thank him for extending the time of these hearings so we could probe at some answers.

The term that keeps coming to mind throughout these proceedings has been incredulous. This is very disappointing—hear no evil, see no evil, speak no evil seems to be a common refrain running throughout the investigation.

I described how Mr. Clifford came before this committee with Mr. Altman, represented by counsel, and testified in very glowing terms regarding the sterling board of directors and management team that he had been able to assemble at First American, and frankly, what we hear today is testimony replete with instances

that I think would call into question the competency and reliability of that board of directors, and the management team.

So that you have an idea of what I refer to, I will cite specific examples, but I want to go back to the compensation package. Did the board of directors have an executive compensation committee?

Mr. BEDDOW. It had a separate compensation committee some years ago. It has not been active——

Mr. RIGGS. Did the board of directors set compensation for Mr. Clifford as chairman of the board and Mr. Altman? Mr. Altman had the position that you now hold?

Mr. BEDDOW. He did not. The board of directors set the compensation for the outside members of the board, which included a payment to Mr. Clifford as chairman of the board. Mr. Altman received from the company the regular board fees that any outside member of the board was entitled to.

Inside members of the board, that is, people who worked for the company, do not get board fees.

Mr. RIGGS. It never seemed curious to you, you may have known about these significant legal fees that Mr. Clifford and Mr. Altman were making in their representation of BCCI, but it never seemed curious to you that Mr. Altman wasn't drawing a salary for his duties? What was his actual job title?

Mr. BEDDOW. He was president of First American Corp. He was not an officer of First American Bankshares.

Mr. RIGGS. That never seemed unusual to you, those of you who were directors?

Mr. BEDDOW. He spent part-time on this company. He did legal work, he did get legal fees from the company and he had other clients. I wasn't worried about whether he was making an adequate income.

Mr. RIGGS. Senator Mathias, I want to follow up on a question asked earlier—you say that you went to Mr. Clifford, I don't know if you also said Mr. Altman, but you went to Mr. Clifford when you learned about his stock sale, and the very significant sum or proceeds that he had generated from that stock sale.

Were you aware any time prior to the fact that Mr. Altman had obtained a loan from a BCCI subsidiary in order to purchase that stock? You testified today it was the first you knew of the stock sale, but did you have any prior knowledge of his stock purchase or how he arranged the financing for that stock purchase?

Mr. MATHIAS. You are talking about both the Clifford and the Altman stock purchase?

Mr. RIGGS. Yes.

Mr. MATHIAS. I learned about them simultaneously, from, as I say, the first authoritative word I had on it was from the auditor, in response to my question as to whether he had discovered any loans made by BCCI to First American personally.

Mr. RIGGS. So, that was the first that you knew of any aspect of the stock transactions that Mr. Clifford and Mr. Altman participated in?

Mr. MATHIAS. Yes.

Mr. RIGGS. Mr. Adams, have you been able to recall any banks that did letter-of-credit business with BCCI other than First American and its subsidiaries?

Mr. ADAMS. I have offered to follow up in writing. If that is unacceptable, they had significant relationships with Security Pacific, with American Express, with Bank of New York, with Citicorp, and——

Mr. RIGGS. Are you aware of correspondent banking relationships, the extension of lines of credits?

Mr. ADAMS. Well, I am sure it did include that. That was done in the process of doing really normal, routine trade transactions.

Mr. RIGGS. Did you participate in loans with BCCI?

Mr. ADAMS. No. Not to my knowldge.

Mr. RIGGS. Neither through the Washington nor Virginia branches?

Mr. ADAMS. No. Not to my knowledge.

Mr. RIGGS. Do the other gentlemen have anything to say about that? Did you seek—I know you did because of a memo I have—apparently you sought the business of BCCI.

I am looking at a June 16, 1986, memo talking about soliciting BCCI's business and lists a number of people as potential contacts in BCCI, talking about general using BCCI services for advising international letters of credit and the like.

One of the people listed is Amjad Awan, who was referred to in the memo as our Latin connection. Did any of you have knowledge or dealings with Mr. Awan?

Mr. BEDDOW. I have never met the gentleman.

Mr. RIGGS. Are you aware that he is a convicted money launderer?

Mr. BEDDOW. I read that in the paper.

Mr. RIGGS. And that is the extent of your knowledge?

Does anyone have different knowledge?

Are you aware of a specific transaction as directors, and going back to Mr. Clifford's comments about the outstanding work that he had been able to assemble and the importance of your financial obligations as directors, are you aware of a specific transaction where BCCI of Washington cashed a $60,000 check and gave that money to Manuel Noriega, I believe in 1986, a short time, I might add, before Mr. Noriega came to Washington hearings regarding his alleged drug operations in Panama?

Mr. BEDDOW. BCCI had an account at the Washington bank and wrote checks on that account and I understand that a few of those checks had written down in the 'For' column, Noriega.

Mr. RIGGS. When did you understand that or were you aware?

Mr. BEDDOW. I learned of that in the last year or so.

Mr. RIGGS. Did you have subsequent conversations with the individuals in the bank operations who knew of those transactions or may have had approval authority for those transactions?

Mr. BEDDOW. I don't think there was any approval required. BCCI had a bank account and they wrote a check on the bank account.

Mr. RIGGS. Is it a bank account here?

Mr. BEDDOW. They had a bank account in a Washington bank. They wrote a check on it. It came to the bank and it was paid.

Mr. RIGGS. So you didn't know about it and it wouldn't have raised eyebrows if you had?

Mr. BEDDOW. No. That was in 1986. In 1987, the U.S. Government was writing letters to Noriega, telling him what a fine job he was doing. We wouldn't have reacted to it.

Mr. RIGGS. A letter December 13, 1989, from William Ryback, Deputy Associate Director for the Federal Reserve System Board of Governors. It is to Mr. Altman and he raises the concerns regarding the allegation that investors, your shareholders, or the shareholders of one of the parent companies, may have borrowed funds from BCCI, and in his letter he asks Mr. Altman to provide "information on any loans extended to the original or subsequent investors either directly or indirectly by BCCI or any of its affiliated organizations."

I am told that in his response, Mr. Altman was less than forthcoming, for example, did not mention the loan I referred to earlier, the loan to Mr. Mohammad Hammoud, the gentleman who had obtained the letter of credit to guarantee the performance and bond for the development project in Alexandria.

Were any of you aware of this correspondence between Mr. Altman and the Federal Reserve?

Mr. BEDDOW. I did not see that correspondence at that time. I have seen it recently.

Mr. RIGGS. Let me conclude by asking, I guess the essential question that comes to my mind, and that is whether or not this was a caretaker passive-type of board or whether it was more of a hands-on board and the extent to which you relied upon representations made to you by Mr. Clifford or by Mr. Altman.

It seems to me that there are, if not any intentional misconduct or misrepresentation, there certainly was rife throughout this whole business, a lot of secretive dealing, insider-type of dealing, I guess, in one sense.

What was the interrelationship between the board of directors and Mr. Clifford and what was the frequency of contact with Mr. Clifford and Mr. Altman, and did the board in any way, shape or form set policy? Or was the board actually directed by Mr. Clifford and by Mr. Altman?

Mr. MATHIAS. Let me try to make a first-cut at that out of my own experience. Take the First American Bank of Maryland, for example, the First American Bank of Maryland, there was intense participation, as Paul Adams can verify, by members of the board of directors. They looked at not only loan policy and loan procedures, but they looked at individual loans. They voted on—if there were any insider loans, they voted on those questions.

Mr. RIGGS. Except, for example, the insider loan that I have mentioned and I guess the reason you didn't get to vote on that is you weren't aware that this gentleman owned in excess of 5 percent of the parent stock, Mr. Mohammad Hammoud?

Please continue.

Mr. MATHIAS. The participation is very active, and is really independent. And I would like Mr. Adams to comment on that in a minute, too.

Now the Bankshares had four meetings a year. Those meetings were largely devoted to a review of the financial activity, the financial results of the subsidiary bank as opposed to the activity at the Maryland bank, which I use as an example of the subsidiary banks.

They dealt with policy questions because it was four meetings a year, you had to paint with a very broad brush.

But there were many questions asked. There were detailed information sought. We obviously relied upon the chairman as a source of information because that is, I think, normal in any corporate structure.

Mr. RIGGS. Well, let me break in at this juncture, Senator, because I think you have made that point adequately in your opening statement.

And now let me just ask, I guess, the pregnant question. Do you believe that—any of you gentlemen, do you believe that Mr. Clifford and Mr. Altman had personal knowledge of BCCI's penetration of First American Bank and their ultimate ownership of First American Bank?

Mr. MATHIAS. You are really asking us were they lying when they told you otherwise here in this committee room?

Mr. RIGGS. You are directed to exercise your independent judgment and authority, and that is what I am asking you.

In that capacity, did you or do you believe that?

The CHAIRMAN. Will the gentleman refrain?

You know a while ago, Mr. Armey talked about, waiting until they get subpoenaed in a court of justice.

Well, if they did, they would have protections, even from your question.

You are asking a question that calls for a conclusion that the gentleman wouldn't be in a position to know. We had Mr. Altman, and we had Mr. Clifford here under oath. We cannot ask these gentlemen, as the Senator was about to say, whether we think they think they were lying.

I think that is something that perhaps is quite unfair to ask the witnesses, if I may be so bold as to say.

And I would ask the gentleman to withhold on that question.

Mr. MATHIAS. Can I just thank the chairman for his intervention there? I do exactly share his sentiments, and I think he and I understand really what rights of people, individuals are involved here.

The CHAIRMAN. That is right.

Well, we have that duty, to be sure that we are aware of the rules and rights of everybody, not only ourselves, but you gentlemen.

Mr. Kanjorski, do you have any additional questions?

I might point out that the Chair has been as liberal as it has, even reluctantly, because of the fear of imposing on the witnesses.

Mr. Riggs, for instance, on this last one you had a little better than 15 minutes. And that is all right. You know, I expect that.

And I would like for you to stay here until Mr. Kanjorski finishes.

I wish Mr. Moran had, because I am going to make an observation here that I think the record ought to reflect.

Mr. Kanjorski.

Mr. KANJORSKI. Senator Mathias, I want to direct this to you because my original examination, I didn't want you to jump to the conclusion that I prejudged anything that you have done, sir, nor am I casting aspersions.

Quite frankly, I would like to congratulate you for your testimony. When you said you did find out of the involvement of Mr. Altman and Mr. Clark Clifford in this transaction, I think you did the exact right thing.

What I am disturbed about is why our directors don't find these things out earlier and what we should do with the law to make sure that they do.

But I have always had—even though we are different parties, I have always had the fondest regard for your integrity, sir, and I want you to know that.

Mr. MATHIAS. I appreciate that.

Mr. KANJORSKI. These things do get testy.

You have spent so much time on our side, you know what we are striving at.

One of the things that disturbed me in Mr. Clifford's testimony and Mr. Altman's testimony is they always made these wild assumptions in terms of that the story held true if everyone were aware of the facts.

For instance, as my colleague on the other side talked about the salary, they only accepted $50,000 a year salary, even though a usual salary in this area for the role of chairman or president would be in the neighborhood of $1 to $1.3 million.

The only explanation for that, for them, for the shareholders, or for the directors is if you were all aware that there was another source of compensation.

Now your testimony is clearly that you were not aware of the stock transactions. So I am trying to figure out why in my mind when you sit down and set out the salary that the chairman should get and that the President should get, and clearly that is a board decision.

Why doesn't a bell go off when you are paying a person one-twenty-sixth of the market price? Isn't it something that—and if you rationalize and say, well, their law firm represents you, I don't think you mean to impute that their law firm were overbilling, and that is how they are getting their compensation.

I assume the law firm is a reputable law firm that in fact does hourly work and bills on an—forgetting legal fees.

Why didn't this bell go off? They are not getting compensation from the corporation; would have to be unethical to be getting compensation through the law firm.

So why didn't the question present itself, are they getting compensated by someone else, BCCI, other people unbeknownst, or is there a side deal?

Why didn't that go off?

Mr. MATHIAS. Let me reflect a little bit on how that came to my attention.

As this committee knows from Mr. Clifford's testimony here, he tends to be anecdotal. And if I can search my memory for the first time the subject came up, he told the story of having met with the original investors at that time that he was asked to be the chairman, and at that time the question of compensation had come up, and that he had said that he would take the nominal sum of $50,000, and that he had never wanted to change that from that original conversation.

He was satisfied with that and wanted to hold on to that figure, and that was an explanation which, as I recall, he gave more than once during meetings of the board when compensation was discussed.

Maybe Mr. Beddow would have a different recollection.

The CHAIRMAN. Will you yield to me, Senator?

Maybe I am the one that is confused, but the $50,000 was a compensation paid not by the bank. Wasn't it the holding company?

Mr. BEDDOW. That was paid by First American Bankshares as a stipend as chairman of the board of First American.

The CHAIRMAN. As chairman of the board, OK.

Mr. BEDDOW. And then he drew director's fees the same as other outside directors.

Mr. MATHIAS. That is correct, until February 1991.

The CHAIRMAN. OK. Yes, you are correct, Senator, he was anecdotal and in fact, he gave that as a reason why he felt that it was more than legitimate and proper compensation after he had brought up the bank to number one—the holding company to number one, that he could go back and say now, boys, I want to cash in and I want to get some stock; and he did pretty good.

He made a $10 million profit on the transaction, but that was anecdotal, and it was the point.

Mr. KANJORSKI. But he didn't go back to the boys?

The CHAIRMAN. Pardon?

Mr. KANJORSKI. He didn't go back to the boys. The boys that were setting the salary are sitting right here. He went back to other people outside of the deal without the knowledge of the boys.

The CHAIRMAN. That is right.

Mr. KANJORSKI. The Senator didn't know he had this side stock deal for 5 years; is that correct, Senator?

Mr. MATHIAS. That is correct.

Mr. KANJORSKI. And I am not going to put you on the spot. Perhaps it is clear. When you did find out, could I assume that you were extremely disappointed?

Mr. MATHIAS. Well, I was extremely upset, as illustrated by the fact that Mr. Stauffacher and I immediately went to Mr. Clifford for an explanation.

Mr. KANJORSKI. I won't push that line any further, Senator. I appreciate that answer.

Now, my last question will be, when Mr. Mattingly was here from the Federal Reserve, I pointedly asked him a question, because I, myself, have not come to the final conclusion of why BCCI spent all this time and all these machinations to get control or ownership at least of First American.

And I had a direct question by myself to him. I asked him whether or not there are any past or present public officials who have received loans from First American and whether or not there was any preference involved in those loans.

And his response was, yes, we are looking into the matter. We are not at liberty to discuss this.

Are you members of the board aware of past or present, public officials, either on the Federal, State, or local area, that have received loans that are either preferential or just regular loans from First American?

Mr. STAUFFACHER. I have no such information about preferential or improper loans.

Mr. BEDDOW. Well, I am confident that we have loans to present and former government officials. I am also confident that none of those are on a preferential, improper basis. We don't red line government officials.

Mr. KANJORSKI. I understand that. But we can assume there are no recourse loans out there?

Mr. BEDDOW. There are no nonrecourse loans to anybody from First American Bankshares.

Mr. KANJORSKI. That part of the problem didn't filter down, I assume. I am glad to hear that.

Are you making an examination now because there is, as I understand it, a further investigation toward referral to Justice of some of these loans.

Are you aware of that, and are you actively participating with the Federal Reserve, the Justice Department, to find out what these problems are?

Mr. BEDDOW. All we know about those loans are the remarks that were made up here and in the papers. We are curious to know what anybody is talking about. Nobody has suggested a name. We don't know where to look to see if there is a name.

We simply know of none, and we didn't know that anything of that kind was being referred to Justice. If they have any names given to us, we will check it out.

Mr. KANJORSKI. If you could, and I am just going to—you have seen this whole thing play out now. Do any of you have any insight that you can give to the Congress in regard to why did BCCI go through these convoluted activities to gain ownership or control of First American?

Do any of you have any suspicions or suggestions as to why that could occur or did occur?

Mr. BEDDOW. I don't know why they occurred, and that is one of the mysteries in whether these things really happened or not.

The CHAIRMAN. Will you yield to me there, Mr. Kanjorksi?

When we had the hearing with Mr. Clifford and Mr. Altman, I placed in the record the schematic plan that had been presented to Mr. Abedi by Mr. Afridi, and among other things he was analyzing the U.S. market. They outlined their plans very, very explicitly, and in fact they even used some operations that I remarked at the time we had the hearing, I don't think you were present, that introduced new products and services to provide greater facilities——

Mr. KANJORSKI. Mr. Chairman, I am aware of that, and superficially that would be the reason why banks acquire banks, but——

The CHAIRMAN. No. No. No. They were more explicit than that.

Mr. Afridi had been an employee of the New York bank and he was saying, here's what you want to do, here's the way we scope it. In our second phase, and we have a sound product—we finance and lease small companies, export trading corporation, syndication on a large scale, U.S. Government financing, AID, Export-Import Bank, SOLPEX, Central Bank, selected Third World countries, and, of course, financial institutions that they could purchase.

Mr. KANJORSKI. I understand that. And those are all legitimate business activities, Mr. Chairman.

What I am suggesting is that there was a pattern here with the purchase of the stock from Mr. Clifford, it is highly inflated as compared to what you were willing to pay other shareholders for the stock at that very time. I think it is maybe one or one-and-a-half times more than was offered to other people who held stock interests.

I think Mr. Moran has indicated here a very high premium paid for this National Bank of Georgia situation, that for some reason there seems to be, in my mind at least, the suspicion created that there is something much more here than just financial activities of a standard operation within the American market.

The premiums paid, the unusual convoluted activity, the insensitivity of Mr. Altman in responding to the Federal Reserve about his transaction, all this seems to be a very controlled situation.

Thank you very much, Mr. Chairman, and may I congratulate you. I think you certainly have helped those of us on the committee that want to discover what we have to do in the future to try and prevent these occurrences.

The CHAIRMAN. Thank you very much, Mr. Kanjorski. And I do appreciate your contribution, your help, and your membership on the committee.

In connection with what you just said, we had the Federal Reserve Board president of the Atlanta bank explain and give us the dates, 1981, 1982, and 1983, BCCI was able to charter three Florida banks in different locations, Miami, Boca Raton, and I think Tampa.

At that time the FBI—the Federal Reserve Board mostly, on my urging and pushing, the committee chairman, and finally the subcommittee chairman gave us the startling accounts of the cash transactions that were taking place in those locales. So here is one branch of the Federal Reserve Board saying, hey, look, there is something funny about these cash transactions, they must be drug laundering money operations, and another branch that was present when the reports came in that BCCI was establishing these three different banks.

So you do have the right questions here to pursue, and I think we have a duty to find out and correct it, even now with the amendments thus far adopted in the bill we passed out of committee, which obviously we are going to have to fortify. So we will be open to some suggestions on your part.

What I wanted to say to you gentlemen was that in all fairness to the witnesses, and I wish Mr. Moran had been here, there is a phrase in law, you know, nunc pro tunc, now for then. Unfortunately, we can't evoke 1985 and 1986. Maybe it is fortunate we can't. This was a high-riding period of time. It was the go-go era. The 1970's had come and gone with the great money manias that had been generated.

So that administration brought the change of policy that enabled the funding of our debt and everything else to be provided for by foreign countries, foreign investors. And Mr. Scoffone was not, in all fairness to you, on the board of directors in 1985 or 1986, you were an employee. And you had a request from the president saying, look into this, and there may have been some corollary surrounding side instructions, who knows. So you were given your

report, not as a member of the board of directors, but as an employee.

Well, I don't think that was clearly defined here, and I think in a way it tended to be unfair to you. In retrospect had you been a member of the board of directors, you might have been accountable for it. If you have an instruction, you report the best you can.

Well, gentlemen, you were informed the State of Georgia would change its laws. They did. But then in the interim, eventually you became a member of the board. I think in all fairness, the record ought to show that.

I think that generally, the atmosphere was still prevalent that had begun in the late 1970's where the chief experts of our banking world, the seven or nine big banks of our country, went in 1½ years, by 1979, from about $3 billion to over $45 billion in their overhang to these so-called Third World countries. How could they have done it?

I was chairman of the Subcommittee on International Finance, and when I got the statistics from the Federal Reserve Board in the summer of 1979, I took a special order on the House floor, pointed out that these countries could not and would not ever be able to pay back their debt. The answer was this is Arab oil money, we are recycling.

This is my surmise of what is wrong with all this money coming into the United States. This is Arab recycled money from the increased price of oil in the early 1970's, and most American dollars. The problem occurred when it reached the point that these loans were equivalent or in excess of the capitalization structure of those banks. And that is what I was saying in August 1979.

Well, I was a customer, you know, you didn't have TV coverage or anything, nor did I expect it. But the chairman of the Federal Reserve Board, Mr. Burns, called me the next day and invited me to have breakfast with him. And that is what he brought up. He said he was concerned and that there wasn't anything he could do, and that is when I got worried, like this morning, I am worried now, because obviously we have many weak points in our institutional armor for financial institutions.

But anyway, the point is that we can't evoke that will now. You know, so you had a rich Arab or a Pakistan or somebody wants to come in and throw money around. Gee, that is great. Not on the road to Damascus, but on the road to the bank in downtown Washington. I could see where that light hit Mr. Clifford, who decides that he is going to be a banker.

Mr. KANJORSKI. Mr. Chairman, if I could just suggest, though——

The CHAIRMAN. Certainly.

Mr. KANJORSKI. Some of these Third World nations come into the United States to throw their money around. Maybe they could stay at home and we would have to throw less of our foreign aid over there.

The CHAIRMAN. Well, unfortunately, I am afraid that they weren't dumb either, and in fact I think they ended up a lot slicker than Americans.

I recall that I introduced a resolution to impeach Chairman Volcker when it became obvious that those countries were not

going to pay, and the high interest rates they were expected to begin with were not about to materialize. Look where we are today, where they have reached that point of peril.

This is what has been dragging down the biggest banks. Now how can you explain the biggest bankers getting into that kind of an arrangement?

The reason again I say is that there was a lapse, and you had false notions, as Mr. Riston, then head of the Citicorp said in replying. I have been making some noise there, and, of course, I was ridiculed, but the reason was that Mr. Volcker was meeting in private with such guys as the Hunt brothers in a motel down in Florida, with Mr. Riston to see how they could save the bank credit that had been involved in the failed attempt of Hunt to corner the silver market. All of that was tied in.

And so what I was saying was, well, Chairman Burns, why don't you do something about it? You can't allow this overhang because, sure, it may be Arab money, but it is deposited in an American bank being loaned in the name of that bank. And he said, well, there is not much I can do. When I brought it up at the convention of the bankers, they almost threw me out, and I said, why not? You have section 14(b) of the Federal Reserve Board Act. You can insist that they increase their reserves to cover it. The rest is history.

The point is that we are facing the same thing now. We are not going to be the saviors. It is too late. All we can do is try to discharge our responsibility as we read the experiences of how we can offset what obviously is going to be a day of reckoning.

Mr. KANJORSKI. Mr. Chairman, may I suggest something?

In the nature of Senator Mathias here, we have an asset. It seems to me that we in the Banking Committee in the House at least have cooperated to a very large extent with the Treasury, and with the administration, in drafting the reforms needed to expand powers.

The CHAIRMAN. We have.

Mr. KANJORSKI. And as we have seen here, obviously the administration, the regulators and the Treasury do not have a handle on what is happening in these holding companies, that they can't identify. You know, maybe we could say Senator Mathias is an old Joe Kennedy from the days of the boilerplate operations, as Mr. Kennedy, the Ambassador, was called in to help write the SEC legislation.

The CHAIRMAN. That is right.

Mr. KANJORSKI. Maybe it is time the Congress call in experienced business community members of the board who are former legislators, and have seen the problems from the inside after the fact. What doors do we close? What records do we set up? What do we have to see?

Instead, we are going right out and doing the same thing and passing the same types of laws, all based on a fallacious assumption at this point, that the Federal Reserve either is doing or has the power to do its job, that the Treasury is doing or has the power to do its job, and the regulators are doing or have the power to do its job, and we have firsthand evidence here that it is not happening.

Maybe we should ask the Senator to, using his experience in the legislature, come forth with the Senate committee and our committee and start structuring a piece of legislation that is not going to protect the international bankers, that is not going to make a better playing field out there for the speculators of America, but protect the depositors and the taxpayers of the United States.

The CHAIRMAN. I agree with the gentleman. I think it is intimated that we were seeking not only testimony, but suggestions and recommendations if any. I think we could benefit a great deal from a gentleman like the Senator as well as his colleagues here.

After all, we are not bankers, but we are on the Banking Committee so we are charged with at least knowledge of the law and what it takes to keep up with the times from the standpoint of defending the public interest, the greatest interest of the greatest number.

Mr. MATHIAS. I am honored by that suggestion and to the extent that I can be helpful in any way and we can continue this communication that has begun today and I will be happy to do that.

Let me thank the Chair on behalf of all the witnesses for the courtesy extended to us. I think you have shown great sensitivity in dealing with important rights that people have and that need to be protected but it is the Chair that does the protection.

It is a great personal privilege for me to be here, and to see the years the chairman has spent in this occupation have obviously produced experience and knowledge and wisdom.

The CHAIRMAN. Thank you.

Mr. MATHIAS. I think you have to take a broad view as the chairman suggested, the government itself has got problems in this area. I think back in 1983, 87 percent of the Federal budget deficit was supplied by foreign industrial banks, not foreign investors, but foreign central banks.

So this is a broad problem and it takes, I think, a comprehensive kind of solution.

The CHAIRMAN. Thank you very much. You still have the privileges of the gym as a former Member, but anytime——

Mr. MATHIAS. I will meet you there.

The CHAIRMAN. Fine, and you will have a chance, if you haven't already, to go into the splendid Rayburn Building gym. It would be an honor.

Let me then just end up as we started by thanking you gentlemen for your cooperation and forgive us for having imposed on your patience and goodwill. We have gone through the lunch hour.

More members were not here, because the House quit yesterday at about 2:20 and most of the members nowadays go back principally to their districts and unfortunately I couldn't keep them here.

The House did that to us when we were trying to round out and finish the banking bill in June and the overwhelming majority stayed here not only 1 day, but 2 days and we got the bill out.

So thank you very much and you will get a transcript of the proceedings for your correction or addition or modification. We really appreciate it and the committee will stand adjourned until further call of the Chair.

[Whereupon, at 2:35 p.m., the hearing was adjourned, subject to the call of the Chair.]

# APPENDIX

September 27, 1991



**Opening Statement of Henry B. Gonzalez, Chairman**
**House Committee on Banking, Finance and Urban Affairs**

**Hearing on Bank of Credit and Commerce International**
**(BCCI) Investigation**
**September 27, 1991**

This morning we open the third in a series of investigative hearings on the infiltration of the Bank of Credit and Commerce International into the U. S. banking system.

There is no group more important to the safety and soundness of this nation's banks than the thousands of directors who sit on the boards of these institutions.

Boards of directors, when they function properly, can be the Number One bulwark against insider shenanigans, corrupt management, illegal and unsafe banking practices. Directors who ask questions, demand evidence, and take a hard-nosed attitude about their fiduciary responsibilities are the unsung heroes of the U.S. banking system.

Unfortunately, all too many directors bring to the table only one thing--a huge rubber stamp with one word, "YES", for all management decisions.

Most of the BCCI-First American news stories have focused on the personalities of Clark Clifford and Robert Altman and what they knew, when they knew it and who they told.

Today, we have before us another group of First American insiders--the board of directors. They did not sit on the First American board by accident. They were handpicked by Mr. Clifford and Mr. Altman.

We are interested in what they knew about BCCI. We want to know what conversations they may have had with Mr. Clifford and Mr. Altman concerning the ownership and control of the bank and the role of the Middle East investors. We also want to explore what

role the directors took in the acquisitions made by First American. Most importantly, we need to know the relationships between the board and the bank's regulators--the Federal Reserve and the Office of the Comptroller of the Currency. Did the regulators raise questions with the directors about BCCI or Middle East investments in general? What was the flow of information between regulators and the board and how vigorous were the regulators in their dealings with the board of directors?

This Committee has subpoenaed thousands of documents in this investigation. We are still combing through the paper as we plan additional hearings in the coming months.

Most of the questions remain unanswered and it is the obligation of this Committee to fully explore the entire role of BCCI in this country. Since we began our investigation of the Banca Nazionale del Lavoro early last year, we have attempted to focus the attention of the Congress and the public on the serious problems emerging from foreign banking interests in this nation and the apathetic approach of our regulators to these problems. Pending before the House at the moment is a major revision of laws relating to foreign banking and these hearings may lead to additional amendments to that legislation.

Not only did BCCI creep into banking from New York to California, but it also infiltrated the thrift industry through a major investment in Centrust Savings in Florida--an institution that is destined to cost the taxpayers probably in excess of $2 billion dollars before its failure is unravelled.

We need to investigate the Centrust connection fully. We need to look very closely at Ghaith Pharaon's role in Centrust and his relationships with Bert Lance, the National Bank of Georgia, the Independence Bank, and the ultimate purchase of NBG by First

American Bankshares. Many of these threads appear to hang together.

The Committee must also press forward in getting to the bottom of the Justice Department's handling of the BNL and BCCI fiascos.

The American people, I am convinced, expect this Committee to go beyond the headlines and lay out the full roadmap of BCCI's trip through the U.S. financial system and all the friends they picked up along the route.

We intend to investigate BCCI, BNL, and other foreign banking problems in the U.S. with the same vigor and thoroughness as we pursued Lincoln Savings and other savings and loan cases.

Our witnesses this morning are Paul S. Adams, Executive Vice President and Chief Financial Officer, First American Bankshares; Jack W. Beddow, President and CEO, First American Bankshares; Charles McC. Mathias, Jr., Director, First American Bankshares; A. Vincent Scoffone, Director and Treasurer, First American Corporation; and Charles B. Stauffacher, Director, First American Bankshares.

**STATEMENT OF THE HON. CHALMERS P. WYLIE**
**BCCI HEARINGS**
**SEPTEMBER 27, 1991**

Thank you Mr. Chairman. I want to commend you today for continuing the Committee's investigation into the BCCI scandal. I believe that the witnesses before us can provide much useful testimony to the Committee on BCCI given their roles on the Board and as management of First American. As we discussed in our earlier hearings, directors and management at an institution have a duty to investigate elements of misconduct at an institution. I believe that we need to learn today how the gentlemen before us have fulfilled these duties.

I also would like to welcome our former colleague Senator Mathias to the Committee. I believe that his actions while on the First American Board directly led to the removal of Mr. Clifford and Mr. Altman from the bank. Unlike others involved in the BCCI affair, it appears that Senator Mathias acted swiftly and decisively when wrongdoing was uncovered at First American. He should be commended for his efforts. I greatly look forward to hearing his rendition of how and why these gentlemen were removed from First American.

Mr. Chairman, I believe that the Committee has gone a long way in its investigation of First American and you have truly let the chips fall where they may. You and your staff should be applauded. I would like to give you my strong support in continuing the Committee's investigation and delving deeper into this scandal. I still fear that the Committee has only scratched the surface of BCCI's activities in the U.S.

Finally, I believe that the Committee must determine whether BCCI exercised improper political influence in this country. BCCI's state political activities have been well documented in Georgia and questions still exist concerning its oversized Washington office. I would like to note that federal court pleadings filed in early August against three of the witnesses here before us contain the statement that BCCI " ... made or arranged for loans by First American Bank to prominent officials in amounts and on generous terms not otherwise justified." The Committee must ultimately get to the bottom of these charges concerning BCCI's political influence in Washington and determine if they represent smoke or fire. If political wrongdoing exists it is our duty to shed light on these activities regardless of party affiliation.

Thank you again Mr. Chairman for holding these hearings. I look forward to listening to our witnesses testimony today and to continuing our work together on this important investigation by the Committee.

For example, representatives of the Federal Reserve have told me that the two most crucial sets of documents for the Committee to review are the Clifford & Warnke privileged documents and the documents found in the BCCI Washington office. To date, the Banking Committee staff has not received access to these documents. While Mr. Clifford and Mr. Altman promised production of the law firm documents to the Committee, they have not been forthcoming. These records are crucial to the Committee's understanding of the BCCI affair and must be thoroughly reviewed by Committee staff.

Moreover, the testimony we have heard so far raises as many questions as answers to me. I think the Committee needs to hear a wide variety of additional witnesses in order to complete our understanding of BCCI and its relationship with First American. There are several classes of witnesses I would encourage the Committee to call. First, I believe that there are several former employees of First American and BCCI who would be willing to cooperate with the Committee. They should have inside knowledge of BCCI's U.S. affairs and its relationships. Second, other regulators and government officials should be brought before the Committee. I do not believe that the Federal Reserve was the only agency responsible for BCCI's activities in this country and we should here from other responsible government officials. Third, I believe that state regulators should be called. They play a key role in the regulation of foreign banks in this country. Fourth, I believe that we need to call some of the financial kingpins that BCCI dealt with in this country. Individuals such as Bert Lance, Ghaith Pharaon and David Paul should not escape the Committee's inquiry.

**Today's Witnesses Background**

| | |
|---|---|
| **Jack W. Beddow** | Director and President of:<br>Financial General Corporation<br>First American Bankshares, Inc.<br>Maryland Bankshares, Inc.<br>New York Bankshares, Inc.<br>Valley Bancshares, Inc.<br>Virginia Bankshares, Inc.<br>Washington, Bankshares, Inc.<br>Director and Vice President of:<br>National Mortgage Corporation<br>The Potomac Insurance Company<br>Director and Secretary of:<br>First American Corporation<br>Director of:<br>Credit and Commerce American Investment, B.V.<br>First Advantage Mortgage Corporation<br>First American Bank, N.A. of Washington<br>First American Bank of Virginia<br>First American Insurance Services, Inc.<br>First American Insurance Services, Inc.<br>First American Metro Corp.<br>First American Staff Temporaries, Inc.<br>Georgia Bankshares, Inc.<br><br>Elected 4-14-82 |
| **Vincent Scoffone** | Director and President and Treasurer of:<br>First American Insurance Services, Inc.<br>National Mortgage Corporation<br>The Potomac Insurance Company<br>Director, Vice President and Treasurer of:<br>Financial General Corporation<br>Maryland Bankshares, Inc.<br>New York Bankshares, Inc.<br>Valley Bancshares, Inc.<br>Virginia Bankshares, Inc.<br>Washington Bankshares, Inc.<br>Director and Treasurer of:<br>First American Corporation<br>First American Staff Temporaries, Inc. |

Director of:
Credit and Commerce American Investment, B.V.
Georgia Bankshares, Inc.
Valley Fidelity Bank and Trust Company
Senior Vice President and Treasurer of:
First American Bankshares, Inc.
Viçe President of:
First American Metro Corp.

Elected 1991

**Paul G. Adams**

Executive Vice President and Chief Financial Officer of:
First American Bankshares
Director:
First American Metro Corp.
Georgia Bankshares
New York Bankshares
Chairman:
Maryland Bankshares

Elected 5-25-89

**Charles McC. Mathias, Jr.**

Former Senator Maryland
Attorney (Partner):
Jones, Day, Reavis, and Pogue
Director:
First American Corporation
(Audit Committee)

Elected 2-26-87

**Charles B. Stauffacher**

Retired
Director:
First American Corporation
(Audit Committee)

Elected 2-23-89

**Statement of Charles McC. Mathias**
**Before the Banking, Finance and**
**Urban Affairs Committee of the**
**United State House of Representatives**

**September 27, 1991**

## I. INTRODUCTION

Mr. Chairman, Members of the House Banking Committee, my name is Charles Mathias. I currently serve as a member of the Board of Directors of First American Bankshares, Inc. and I am chairman of a Special Oversight Committee of the board, the charter and activities of which I will describe in a few moments. I am also a member of the Board of Directors of First American Bank of Maryland. It is in my capacity as a member of the board of Bankshares as well as the chairman of the Special Oversight Committee of Bankshares that I appear before the Committee today.

With me here today are Jack Beddow, Paul Adams, Vince Scoffone and Charles Stauffacher. Jack Beddow is the Chief Executive Officer and a Director of First American Bankshares. Paul Adams is the Chief Operating Officer and also a Director of Bankshares. Vince Scoffone is the Senior Vice President and Treasurer. Charles Stauffacher has served as an Outside Director of First American Bankshares since February, 1989.

I appear here today at your invitation and welcome this opportunity to respond with facts about First American to some of the intense publicity concerning the Bank of Credit and

Commerce International ("BCCI"). We hope to make clear to you and to the public that First American's banks have not committed any wrongful or improper banking practices and that their operations are not in any way controlled by BCCI.

We appear today on behalf of the leading financial institution in the Washington, D.C. area and its many dedicated and professional officers, directors and employees. Our banks are fortunate to serve several outstanding communities up and down the eastern seaboard of this country and to participate especially in the growth and development that has occurred in the greater Washington Area. Having had the privilege to represent the people of Maryland in the Congress, I take particular interest in First American's service to the people of Maryland.

First American is part of American banking history, because it is one of the oldest American bank holding companies. It was originally incorporated as the Morris Plan Corporation of America and was famous nationwide. In another period with different ownership, it traded under the name Financial General.

Of late, the significant accomplishments of the employees of this long-established institution on behalf of the communities that it serves have been completely ignored. Instead, the institution has been broadly and unfairly maligned as a result of events that are external to it and beyond the control or influence of the people who have served the bank so loyally.

My own involvement with First American began in 1987 after my service in the Senate ended. Clark Clifford, whom I have known for many years, invited me to join the Board of First American Bankshares and First American Bank of Maryland. I was willing to accept this responsibility in part because I viewed this as a way to continue to be involved with the community that I formerly represented.

## II. THE MARYLAND BANK

Although I intend to speak at greater length about my role as a director of First American Bankshares, I would like to speak first about my experience with the First American Bank of Maryland, because it involved the direct oversight of banking operations. My experience at the First American Bank of Maryland is also very germane to the issue of whether BCCI controlled First American, a question on which there has been considerable speculation and investigation.

First American Bank of Maryland is one of seven subsidiary banks that serve thousands of communities from New York to Florida. In total, these banks employ about 5,500 people. Some of these employees, like Jack Beddow here with me today, worked for First American before it was First American. Changes of name and corporate ownership have not interrupted their consistent service. The primary business of this institution has always been retail, local banking. The Maryland Bank, for instance, has over 100,000 deposit accounts and about 30,000 loan accounts of various types.

The Maryland Bank has its own independent Board composed of conscientious directors, many of whom I have been fortunate to know for years. In my experience, the officers and directors of First American Bank of Maryland have managed their own operations and made their own decisions with little or no input from above.

Paul Adams, who is with me here today, was the President of the Maryland Bank from 1982 to 1989, when he moved up to become the Chief Financial Officer of First American Bankshares. Paul did a masterful job of leading the bank in Maryland. When Paul became President of the Maryland Bank in 1982, it was a marginally profitable bank. Today, the First American Bank of Maryland is a well-capitalized bank with $1.5 billion in assets -- nearly six times its size when Paul took over. The Bank accomplished this feat by participating in and fostering the dramatic growth that has occurred in the northern and eastern perimeters of the Washington Metropolitan area and along the industrial corridor that connects Washington, D.C. to Baltimore. Our Maryland Bank has become an integral part of these communities.

## III. <u>THE OTHER SUBSIDIARY BANKS</u>

The Maryland Bank is not alone in its accomplishments. Each of the subsidiary banks has independent, dedicated leadership that has served its respective communities well. Our efforts have always been aimed principally at the retail

level, serving many small depositors and customers. The First American banks together have close to one million deposit accounts and one-half million outstanding loans.

Our commitment to the communities we serve is particularly evident in the lending and investment decisions made by the First American banks. In the late 70's, Congress passed what I viewed as long-needed legislation, entitled the Community Reinvestment Act ("CRA"). As you know, this legislation requires banks to meet certain minimum levels of investment in low to moderate income housing projects and in loans to low or moderate income individuals within the bank's community. First American has been a leader in achieving the goals of that legislation. Acting, again, through its subsidiary banks, First American has reinvested at every economic level of the communities it serves. For instance, as of August 30, 1990, the three subsidiary banks in the Greater Washington Area alone have invested nearly $1.4 billion in CRA-qualified projects.

It is this kind of activity -- not involvement in BCCI's wrongdoing -- that I believe characterizes First American's operations. Those of us sitting here who are familiar with the real day-to-day operations of First American's banks -- as well as the thousands of employees who have devoted their professional lives to this work -- know that the allegations that BCCI "controlled" the operations of First American banks are extremely unfair and injurious to the good name of our banks and their employees. Indeed, we find it particularly upsetting that speculation concerning BCCI operational control

of First American continues to be offered when William Taylor, Staff Director of the Federal Reserve's Division of Banking Supervision and Regulation, just this Tuesday again confirmed in testimony to the Senate that in spite of exhaustive investigative effort, the Federal Reserve has been unable to find any exercise of operational control by BCCI over First American.

IV. THE BANKSHARES HOLDING COMPANY

All of the efforts of these subsidiary banks are tied together through their parent holding company, First American Bankshares. Unlike many bank holding companies, First American employs a significant operational staff of approximately 300 people. Their respective functions relate generally to functions at the subsidiary banks. For instance, Bankshares has its own, separate loan review function, the purpose of which is to review the lending activity at each of the subsidiaries to assure that company loan policy is being followed and that loans are properly risk rated. Similarly, Bankshares has its own audit staff which audits the activities of all of the banks.

It is my judgment that First American Bankshares, like the subsidiary banks, is staffed by prudent and attentive officers and directors. When I joined the Board of Bankshares in 1987, it had already grown to be the largest bank holding company in the Washington area with total assets in excess of $9 billion, up from $2.6 billion in 1982. On a consolidated basis, the

performance of our banks during my first three and one-half years, from 1987 through mid-1990, was solid and profitable. During this period, the exceptional performance of the Virginia, Washington and Maryland banks was offset to some extent by disappointing earnings results from the New York and Georgia operations. It was our understanding, however, that First American's investment in its New York and Georgia banks reflected strategic decisions favored by our parent holding company, Credit and Commerce American Holdings N.V. ("CCAH") and its shareholders. Moreover, First American's over-all asset quality during this period remained exceptionally high. At the beginning of 1990, Bankshares had $11 billion in assets and ranked among the 50 largest commercial banks in the U.S.

At the end of the first quarter of 1990, all of the indicators suggested that the bank was well positioned for the future. This was not just the opinion of First American's Directors, but of the Federal Reserve Board. In particular, the examiners at the Federal Reserve informed the Board of Directors in February, 1990 that, although operating income had declined slightly, total assets had increased 15.8% since the prior year's inspection and that the net interest margin of the Company was in line with its peer group banks. The Federal Reserve concluded that First American Bankshares was fundamentally sound, with modest weaknesses correctible in the normal course of business.

As we all know, since that time, the country as a whole and the Washington region in particular have experienced a serious recession, which has been especially hard on real estate values in the Washington area. By the end of 1990, First American had realized significant losses for the year from its banking operations for the first time in its history. There has been much debate and commentary on the cause of this recession, on the overall health of our economy, and on the consequences to our banking system of past changes in federal legislation -- issues that are well beyond the scope of my testimony today. I wish to stress, however, that the losses experienced this past year by First American are due largely to the external forces and events which could be neither controlled nor easily anticipated by First American's managers or directors. Fortunately, First American, unlike many other financial institutions, has a solid capital base that will help it endure the economic adversity currently facing virtually all banks.

V. THE OWNERSHIP OF CCAH

The challenges that the past year has brought to First American have, of course, not been limited to the economic problems that have affected the entire industry. Beginning in May, 1990, the ownership of First American's ultimate parent, CCAH, became a subject of considerable media and congressional attention. As I indicated earlier, when I left the Senate at the end of 1986, Mr. Clifford asked me to become a member only

of the board of the Maryland Bank and the Bankshares Board. He did not invite me to become a member of any of the senior holding companies above Bankshares.

I have attached as an exhibit to this testimony an organizational chart that illustrates the relationship of First American Bankshares to its senior holding companies and its subsidiary banks. I have provided this chart because I think that understanding this organizational hierarchy and the accompanying allocation of authority and responsibility is essential for an intelligent discussion of the issues of concern to this Committee.

As you know, First American Bankshares is a privately-owned bank holding company. As the Exhibit indicates, the stock of First American Bankshares is 100% owned by First American Corporation, which is in turn 100% owned by Credit and Commerce American Investments B.V. ("CCAI"), which is in turn 100% owned by CCAH. This ultimate parent is in turn owned by the individual shareholders.

Until recently, the quarterly meetings of the Bankshares Board that I attended focused almost exclusively on the financial results of the subsidiary banks. There was no discussion of the operations of the senior holding companies. Nor, until recently, was there discussion of shareholder satisfaction with Bankshares' performance. I can recall one conversation with Clark Clifford prior to accepting a position on the Bankshares Board during which I inquired about the shareholders. He responded that they were the most wonderful

people. He said that they were very wealthy individuals who had entrusted the operations of First American completely to him, who never interfered in his management of the institution, and who were in this investment for the long term. He said that their attitude was so firm on this point that they did not even seek dividends but instead wanted earnings reinvested to expand the Bank. I also understood generally that the shareholders sought a degree of anonymity and that Mr. Clifford and Mr. Altman would and did control communications with them.

Accordingly, until very recently, as I will soon describe, I had no contact with any of the shareholders. Communications with the shareholders were conducted exclusively at the CCAH level, under the direction of Messrs. Clifford and Altman. I understand that the corporate records of CCAH were maintained at the law firm of Clifford & Warnke and were not kept in First American's offices.

It is, of course, the alleged relationship between this senior holding company -- CCAH -- and BCCI that has been the subject of so much attention which has unfairly affected the First American Banks.

VI. <u>AUDITS OF BANKING RELATIONSHIPS WITH BCCI</u>

It was in May, 1990 that the ownership of CCAH became the subject of renewed interest. <u>Regardies</u> magazine featured on its cover a picture of Sheikh Zayed, apparently to suggest the author's view that the Bank was improperly owned by overseas interests. I was aware that First American's parent

corporation was owned by Middle Eastern investors. But I was not then, and I am not now, opposed to foreign ownership of U.S. corporations -- whether they be financial institutions or other businesses. Free movement of capital is essential to the health of our system. In my view, regulation discriminating against foreign capital would be morally offensive and economically disastrous. The fact of foreign investment in First American's parent corporation was not troubling to me as a director or as a citizen.

The article did, however, raise certain questions that I and others at First American viewed seriously concerning the possible involvement of First American in BCCI money laundering activities and the possible influence of BCCI over First American's lending decisions.

There were some prior allegations of a connection between BCCI and First American that surfaced following the indictment of BCCI and certain of its officers on charges of money-laundering in October, 1988. In a letter to the Board of Directors, the President and Chief Executive Officer and the employees of First American, Clark Clifford denied that BCCI had ever had any financial interest of any kind in First American or that First American had ever had a financial interest of any kind in BCCI.

Several months later, the Federal Reserve appeared to confirm Mr. Clifford's statement of the relationships between BCCI, the individual shareholders, and First American. At a First American Board of Directors meeting in February 1989,

officials of the Federal Reserve reported to the Board that the staff of the Federal Reserve had completed a special review of the relationships between BCCI and First American in connection with the application by First American to acquire the Bank of Escambia. The investigation, which was discussed with this Committee in recent testimony by officials from the Federal Reserve, concluded that there was no evidence of BCCI ownership or control of First American inconsistent with the representations made at the time of the original acquisition, and that First American's correspondent banking relationships with BCCI were conducted in the ordinary course of business and properly monitored. The Federal Reserve's conclusions were reported to the Directors by the Vice President of the Federal Reserve Bank of Richmond, Mr. Lloyd W. Bostian.

Nevertheless, when allegations of improprieties relating to BCCI resurfaced in 1990 with the publication of the Regardies article, First American's Chief Auditor, James Lewis, was asked to conduct a thorough audit of First American's operations. This audit, which began in May, 1990 and concluded in December, 1990, involved an extensive review of transactions with BCCI. It found no adverse financial effects on First American by reason of these transactions, and it found no flow of funds indicative of money laundering. It also found no evidence that any loan decisions were being controlled by BCCI.

The results of this audit were consistent with the findings of the Federal Reserve, as explained to this Committee in testimony two weeks ago by Mr. Robert P. Black, the President

of the Federal Reserve Bank of Richmond. Mr. Black indicated that since the Federal Reserve received the first tangible evidence of BCCI loans to the shareholders in late 1990, a comprehensive, coordinated, and simultaneous inspection of the holding company and examinations of the subsidiary banks occurred that required 52 examiners from all 12 Federal Reserve Banks. The Federal Reserve team found no evidence of transactions with BCCI other than in the ordinary course of business, no evidence of abuse of the banks, and no evidence of significant exposure of First American to financial risk in connection with any BCCI transactions. This conclusion, as I noted earlier, was restated by William Taylor in his testimony before the Senate Banking Committee last Tuesday, when he agreed with Chairman Riegle that, despite intensive investigation, the Fed had yet to find probative evidence of operational control over First American by BCCI.

## VII. THE CREATION OF THE SPECIAL OVERSIGHT COMMITTEE

The results of the Lewis Audit reported to the Directors in December, 1990 were important to all of us because they confirmed that the bank was not being used by BCCI in any improper fashion. For a time, it also seemed to lay to rest the allegations of BCCI control.

The Directors, however, had new issues that we felt needed greater attention. As I have previously stated, although 1990 had started out as another good year for the bank, the six-month period following the Federal Reserve's favorable

report to the Bankshares Directors in March, 1990 were not good for the region. We recognized this circumstance, as did the Federal Reserve. Other banks in the area experienced similar or worse deterioration.

Thus, in late 1990 the Bankshares Board -- following consultation with the Federal Reserve -- created a Special Oversight Committee of the Board. The Committee identified two areas that needed prompt attention: (1) the need for an infusion of additional capital; and (2) the need to conduct a thorough review of asset quality and credit review procedures.

A. Capital Issues

First American has in the last six months realized great success in addressing capital needs that have arisen as a result of the rapid and dramatic changes in the economy. In the first six months of this year, the Abu Dhabi investors have provided capital support approaching $200 million. In addition to this capital, the holding company received in April approximately $6.8 million from the sale of First American Data Services, Inc. It also received $71.5 million from the sale of Valley Fidelity Bank and Trust Company.

Because of these efforts and the long-term view of our Abu Dhabi investors, First American today has a total risk-based capital-to-asset ratio of 9.86 percent of assets. That exceeds by 36 percent the current minimum ratio of 7.25 percent established by the Federal Reserve. The ratio compares favorably to an average for Washington-area institutions of

roughly 8.1 percent. Its measure of Tier 1 capital to risk-weighted assets is 8.56 percent, as compared to the 3.625 percent that is currently required under the Basle standards and minimum federal guidelines.

Notwithstanding this strong record of accomplishment, the Oversight Committee and First American's management continue actively to explore a variety of possible additional steps to improve capital, and intend to continue to move vigorously in maintaining and enhancing First American's capital position.

B. Asset Quality and Credit Review

During the past year, improved policies and procedures to administer First American's overall loan portfolio have been developed and implemented. A revised credit review function coordinated by Bankshares for all of its subsidiary banks for identifying and classifying problem loans is now fully implemented.

Bankshares has also implemented improved programs to provide the necessary training for loan officers and to conduct on-site loan reviews and classifications at the various banks. In addition, based on First American's initiative and guidance, several of the subsidiary banks have created oversight committees to review problem credits and develop plans to resolve them. Increased controls are now in place to monitor performance and to resolve troubled credits.

C. Continuing Investigations Relating to BCCI

Initially, the Oversight Committee believed its principal focus needed to be on the capital needs of the Bank and on a thorough review of the Bank's asset quality and loan procedures. However, questions about the ownership of CCAH resurfaced again in early 1991. Journalistic investigations were accompanied by legislative and executive branch inquiries. Robert Morgenthau, the District Attorney for Manhattan, was similarly interested.

In light of these developments, the Committee determined that it needed to extend the reach of its activities to include closer monitoring and evaluation of the various investigations and the attendant management questions. Since the activities of Messrs. Clifford and Altman were the subjects of these inquiries, the directors collectively believed that greater direct involvement by us was necessary to ensure that independent judgment was being brought to bear on the bank's behalf. Accordingly, I joined other directors of the Bank in meetings with Mr. Morganthau, Mr. Taylor of the Federal Reserve and Senator Kerry who chairs a Senate subcommittee that has been examining this issue for some time. We also have met with representatives of the Joint Liquidators of BCCI and with officials of the Bank of England. By these meetings we sought to pledge the Bank's cooperation in the effort to bring to light all relevant facts and to learn for ourselves more about the allegations that we viewed as unfairly injuring the Bank.

VIII. RESIGNATIONS OF MR. CLIFFORD AND MR. ALTMAN

In the six-month period from February through July of this year, it became increasingly clear that the continued presence of Messrs. Clifford and Altman would be detrimental to First American, because of the continuing publicity relating to BCCI. As you know, Messrs. Clifford and Altman were the focus of much of this publicity. After various discussions with the directors and the Federal Reserve concerning their role in First American's management, Messrs. Clifford and Altman decided to resign on August 9, 1991.

This was obviously a painful decision for them, because they had spent many years running this institution, and, as this Committee has been assured, they firmly believe that they will be vindicated of any wrongdoing. Nevertheless, they, like the directors before you today, recognized that the publicity centering on their alleged relationships with BCCI, whether justified or not, would adversely affect confidence in their leadership and in the institution itself.

My agreement with this decision should not be misconstrued: I did not reach a judgment that Mr. Clifford or Mr. Altman had committed or condoned any violation of law, but only that their continued leadership would no longer serve the best interests of this important financial institution. Whether any wrongdoing has been committed by any party is being vigorously investigated by several law enforcement bodies. Mr. Clifford and Mr. Altman are, of course, entitled to the same presumption of innocence and the same opportunity to

defend themselves as any other American citizen. In light of the complex, disputed and incomplete factual record, it would be highly inappropriate to speculate on the possible legal culpability of any party. This is particularly true with respect to assertions allegedly supported by records supposedly kept by BCCI, since a good deal of information indicates that BCCI did not keep regular records and may well have deliberately manufactured records.

Immediately after accepting the resignations of Messrs. Clifford and Altman, the remaining First American Bankshares Board members contacted Mr. Katzenbach -- who, as you know, was formerly Attorney General of the United States and General Counsel of IBM -- and asked him to meet with us to discuss the possiblity that he would assume the chairmanship of First American Bankshares. Through several meetings in the ensuing days, we were able to frame conditions that would permit Mr. Katzenbach to accept this responsibility.

IX. CURRENT OBJECTIVES

Since the resignations of Messrs. Clifford and Altman in mid-August, the First American Directors, working with Mr. Katzenbach, have sought to achieve three primary objectives.

The first is to bring in a new Chief Executive Officer to replace Jack Beddow, who is past due his scheduled date for retirement. Jack has had a long, productive and distinguished career at First American. His calm and steady leadership has played an important role in helping guide First American successfully through this turbulent period.

The CEO search has gone well, and we expect to make an announcement in the near future. The process has been quite deliberate and thorough. With the assistance of a consultant who specializes in the recruitment of senior executives in the banking industry, we started with a list of more than thirty prospective candidates -- all from outside First American -- and interviewed approximately one-third that number. We have been especially pleased with the level of interest in this position among very qualified individuals. The new CEO will bring to First American both an impeccable reputation and a wealth of banking experience.

Our second primary objective is the establishment of a trust to hold at least 75%, and perhaps 100%, of the stock of CCAH or CCAI. Such a trust arrangement was first proposed about six months ago by the Abu Dhabi shareholders and the Federal Reserve in response to the Federal Reserve's requirement that BCCI come up with a plan for divestiture of whatever interest it may have in First American. The Abu Dhabi shareholders have been willing to submit their shareholdings to this trust, despite the fact that there are no allegations that their shareholdings have been financed by BCCI or are in any way improper. The concept was, and is, that the trust will have power to exercise the shareholder's franchise.

Progress on the details of the trust arrangement languished for several weeks after the provisional liquidators of BCCI were appointed in early July. Nick Katzenbach, in the discussions leading up to his nomination as Chairman of First

American, immediately recognized the benefits offered by the proposed trust arrangements. His insistence that it be implemented as soon as possible prompted renewed progress on the trust arrangement.

Although some of the technical details are still being worked out by the lawyers, a majority of the CCAH stockholders, as well as the British and Luxembourg liquidators have agreed that: (1) the trust will have the exclusive authority to vote the stock of First American's holding company that is placed in it; and (2) the trust will be independent of any control by the stockholders. This trust arrangement will enable First American to proceed now to a new stage in its life, without becoming entangled in disputes regarding its ultimate ownership that could take years to resolve.

## X. CONCLUSION

First American's ability to compete successfully in this difficult economic climate has been undercut by the considerable confusion that has been created by publicity related to BCCI. Because it has been alleged that BCCI controlled shares of CCAH, First American has been associated with BCCI in much of this publicity. This has unfairly tarnished the reputations of First American and its many employees. It is important that this Committee understand and make clear to the public that the alleged ownership of CCAH shares by BCCI does not reflect adversely on the integrity of First American or its employees.

It is undisputed that no irregularities or illegal transactions were discovered by the Federal Reserve in its detailed audits of account relationships with BCCI. The Federal Reserve has not alleged that any First American employees have been involved in illegal activities. In particular, the Federal Reserve found no evidence of any money laundering activities at First American banks.

It is also undisputed that the shareholders of CCAH have not taken money out of First American but have, in fact, contributed substantially to the financial strength of First American's banks over the years. The shareholders have contributed in excess of $400 million in capital, and no dividends were ever paid out to the shareholders. All of First American's substantial profits were reinvested in the institution.

I would note that the Abu Dhabi shareholders, whose purchases are not alleged to have been financed by BCCI, have been particularly cooperative over the past year. First American's ability to deal with the current recession and real estate market downturn has been substantially enhanced by the willingness of the Abu Dhabi shareholders to act as a source of strength. Many other banks attempting to deal with the current economic conditions do not have the benefit of such investor support.

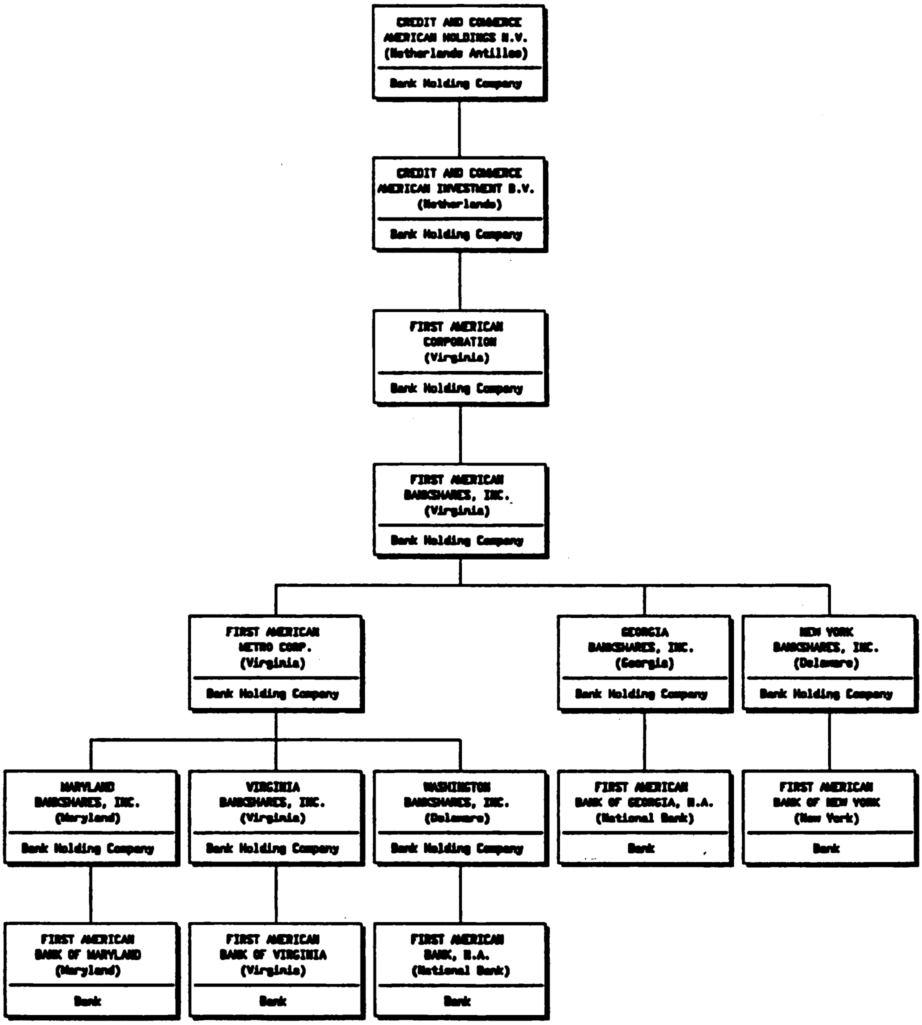
The central concern of this Committee and of the Federal regulators is whether BCCI violated the Bank Holding Company Act by acquiring secretly ownership of a majority of CCAH stock

through loan agreements which BCCI is alleged to have entered with certain individual shareholders. There is no question but that none of the directors before you today -- nor any other current employees of First American -- had any knowledge of these agreements or of BCCI's alleged ownership of CCAH. Indeed, we still have never seen these loan agreements. I have discussed the alleged ownership interest of BCCI in CCAH stock with the representatives of the Joint Liquidators of BCCI. The Joint Liquidators were unable to confirm that BCCI in fact owns CCAH stock. They explained to me that no CCAH stock certificates appear to be in BCCI's possession, and that their claim to ownership will rest on certain contracts whose validity may be disputed. It may be true that when the disputed facts are settled, a violation of bank regulatory law will be proven. At present, that is purely a matter of speculation. What is not speculative, however, is that none of First American's employees are in any sense at fault in these events. I seek your cooperation in preventing any further injury to the reputation of the First American banks and employees that have served their communities so well.

In conclusion, Mr. Chairman, I wish to note that First American has been gratified by the high degree of loyalty and confidence its customers and depositors have displayed in recent months, despite the highly sensationalized and misleading publicity.

Once again, I thank you, Mr. Chairman, for this opportunity to appear here today.

# ORGANIZATION CHART OF BANK HOLDING COMPANIES & SUBSIDIARY BANKS OF FIRST AMERICAN




SEPTEMBER 27, 1991

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JONES, DAY, REAVIS & POGUE

ATLANTA IRVINE
AUSTIN LONDON
BRUSSELS LOS ANGELES
CHICAGO NEW YORK
CLEVELAND PARIS
COLUMBUS PITTSBURGH
DALLAS RIYADH
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September 5, 1991

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your letter of August 27, 1991, the answers to the questions propounded by you are as follows:

1. Biography enclosed.

2. I was invited to become a member of the Board of Directors of First American Bankshares by Clark Clifford.

3. I am a director of First American Bankshares and of First American Bank of Maryland.

4. Mr. Clifford and Mr. Altman are law partners in the firm of Clifford and Warnke. I had no knowledge of any association between them and BCCI until it was reported in the press, nor did I know of any interest of BCCI in CCAH, CCAI or First American. I am not aware that BCCI ever influenced management practices of First American, but have had no opportunity to observe the operations of CCAH or CCAI.

5. I have never borrowed any money from First American, CCAH, CCAI, ICIC, or BCCI, nor owned stock in any one of them. The compensation I have received has been the authorized directors' fees of $1000 per directors meeting, $500 per committee meeting, and $3000 quarterly retainer at First American Bankshares; and $400 per directors meeting, $300 per committee meeting, and $1000 quarterly retainer at First American Bank of Maryland. (Jones, Day, Reavis & Pogue, a law firm in which I am a partner, has been advising the Oversight Committee of the Board of Directors since February 1991.)

6. None

7. None

8. None

9. None. I had no knowledge of the BCCI Legal Defense Fund until it was reported in the press.

10. I had no knowledge of any BCCI loans to Mr. Clifford and Mr. Altman until approximately February 1991, when I was advised of them by the First American auditor.

I hope that these answers will be helpful to the Committee's consideration of this matter.

Sincerely,

Charles McC. Mathias

**MATHIAS, CHARLES MCCURDY, JR.,** lawyer, former U.S. senator; b. Frederick, Md., July 24, 1922; s. Charles McCurdy and Theresa McElfresh (Trail) M.; m. Ann Hickling Bradford, Nov. 8, 1958; children: Charles Bradford, Robert Fiske. B.A., Haverford Coll., 1944; student, Yale U., 1943-44; LL.B., U. Md., 1949. Bar: Md. 1949, U.S. Supreme Ct. 1954. Asst. atty. gen. of Md., 1953-54; city atty. City of Frederick, 1954-59; mem. Md. Ho. of Dels., 1958, 87th-90th Congresses from 6th Dist. Md., U.S. Senate from Md., 1969-87; now ptnr. Jones Day Reavis and Pogue, Washington. Served from seaman to capt. USNR. Decorated Order of Merit (Federal of Republic Germany), Legion of Honor (France), Order of Orange Nassau (The Netherlands), Order of Brit. Empire (Eng.). Republican. Episcopalian. Office: Jones Day Reavis & Pogue 1450 G St NW Ste 600 Washington DC 20005

100 LEADENHALL STREET LONDON EC3A 3AD

DATE. 27th July, 1984.

FROM: SHAHID JAMIL

TO MR. S. NAQVI
MR. K. SHOAIB

SUBJECT HALF YEARLY REVIEW OF FAB

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT
AD 38

Please find enclosed a review of First American Bank shares for the half year ended June 1984. The Bank has achieved the budgeted figure for deposits and exceeded that for loans. The detailed figures are given on Page 1 of the review and the Bank Managements comments are given in the covering letter dated 19th July, 1984, attached to the Financial Report which is enclosed.

I would, however, like to draw your attention to the net income figure of U.S.$ 11.802 million, which is 1.2% lower than the budgeted income figure of U.S.$ 11.949 million. The net income before Federal Income Taxes for the half year ended June 1984 was U.S.$ 17.989 million, as opposed to the budgeted figure of U.S.$ 20.284 million which is a shortfall of 11.3%. The actual provision for Income Taxes of U.S.$ 3.762 million is only 20.91% as against the budgeted tax provision of U.S.$ 5.484 million which was 28.8% of the respective pre-tax income. Thus a U.S.$ 1.41 million adjustment has been made in the actual provision for taxes to bring the net income after taxes in line with the budgeted net income. The detailed analysis of the FAB group performance is included in the review and financial report attached.

It is, therefore, apparent that First American Bank shares have failed to achieve their budget for the half year ended 30th June 1984, by U.S.$ 1.56 million.

Perhaps Mr. Altman may require some assistance and guidance in enabling him to reach the budgeted income figures in the second half of 1984, without further increasing their loan portfolio and raising the loan/deposit ratio beyond the existing 64.72%.

Q7

SHAHID JAMIL

Agha Sahib
I have since discussed the half-yearly results of FAB, with Mr Altman to draw his attention ~~on to the~~ to the areas in which the group's income is falling behind budget, on a pre-tax income basis.

LEGAL FEES PAID TO CLIFFORD AND WARNKE IN RELATION TO FIRST AMERICAN BANKSHARES, CREDIT AND COMMERCE AMERICAN HOLDINGS AND FIRST AMERICAN CORPORATION:

| Time Period | Amounts |
|---|---|
| Oct. 1 to Dec. 31, 1982 | 149,142.97 |
| Apr. 15 to Dec. 31, 1982 | 37,794.00 |
| July 1 to Sept. 30, 1982 | 201,453.36 |
| Jan. 1 to Mar. 31, 1983 | 3,657.98 |
| July 1 to Dec. 31, 1983 | 43,520.44 |
| Oct. 1 to Dec. 31, 1983 | 191,546.53 |
| Apr. 1 to June 30, 1983 | 160,583.79 |
| Oct. 1 to Dec. 31, 1983 | 17,130.16 |
| Jan. 1 to June 30, 1983 | 31,686.86 |
| Apr. 1 to Sept. 1983 | 22,364.80 |
| Jan. 1 to Mar. 31, 1983 | 171,980.67 |
| July 1 to Sept. 30, 1983 | 190,109.37 |
| Oct. 1 to Dec. 31, 1984 | 197,804.63 |
| Jan. 1 to Dec. 31, 1984 | 33,889.34 |
| Jan. 1 to Dec. 31, 1984 | 70,866.18 |
| Apr. 1, 1982 to Feb. 29, 1984 | 236,480.30 |
| Nov. 1984 | 247.50 |
| Apr. 1 to June 30, 1984 | 195,727.07 |
| Feb. 1 to June 30, 1984 | 7,285.32 |
| Jan. 1 to March 31, 1984 | 186,116.84 |
| July 1 to Sept. 30, 1984 | 190,124.84 |
| Aug. 11, 1983 to Feb. 29, 1984 | 29,295.53 |
| Mar. 1, 1984 to Feb. 18, 1985 | 19,549.54 |
| May 1 to June 30, 1985 | 2,840.55 |
| June 1 to Aug. 31, 1985 | 2,957.50 |
| July 1 to Dec. 31, 1985 | 32,797.96 |
| Jan. 1 to Dec. 31, 1985 | 44,084.98 |
| Mar. 1, 1984 to Feb. 18, 1985 | 266,503.59 |
| Jan. 1 to Mar. 31, 1985 | 223,389.87 |
| Oct. 1 to Dec. 31, 1985 | 231,273.48 |
| Feb. 19 to Apr. 30, 1985 | 66,860.00 |
| Feb. 19 to June 30, 1985 | 35,712.50 |
| Jan. 1 to Dec. 31, 1985 | 61,904.59 |
| July 1 to Dec. 31, 1985 | 44,772.20 |
| March 1985 | 973.50 |
| Apr. 1 to June 30, 1985 | 207,707.03 |
| Dec. 1, 1984 to Mar. 31, 1985 | 2,515.04 |
| May 1 to June 30, 1985 | 5,681.11 |
| Feb. 19 to June 30, 1985 | 36,352.08 |
| July 1 to Sept. 30, 1985 | 222,547.02 |
| Feb. 19 to Apr. 30, 1985 | 73,091.46 |
| Jan. 1 to Aug. 31, 1986 | 17,671.10 |
| Jan. 1 to Mar. 31, 1986 | 246,936.03 |
| Jan. 1 to Dec. 31, 1986 | 69,588.89 |
| Dec. 1, 1985 to Feb. 28, 1986 | 14,099.31 |

| | |
|---|---|
| Sept. 1 to Dec. 31, 1986 | 4,956.26 |
| Apr. 1 to Dec. 5, 1986 | 55,826.78 |
| Apr. 1 to June 30, 1986 | 247,064.33 |
| Dec. 1, 1985 to May 1, 1986 | 5,897.91 |
| Jan. 1 to Aug. 31, 1986 | 15,015.41 |
| Apr. 1, 1985 to Jan. 31, 1986 | 87,400.81 |
| July 1 to Sept. 30, 1986 | 269,898.48 |
| Oct. 1 to Dec. 31, 1986 | 267,577.46 |
| Sept. 1, 1985 to Feb. 28, 1986 | 1,038.75 |
| Apr. 1 to Aug. 31, 1986 | 1,073.18 |
| Oct. 1 to Dec. 31, 1987 | 281,735.38 |
| Nov. 4, 1986 to Jan. 12, 1987 | 29,936.12 |
| Jan. 1 to Dec. 15 1987 | 1,028.75 |
| Jan. 1 to Dec. 31, 1987 | 64,821.45 |
| July 1 to Sept. 30, 1987 | 274,820.77 |
| Mar. 1 to Dec. 1987 | 510,022.73 |
| Apr. 1 to June 30, 1987 | 270,898.32 |
| Jan. 1 to Dec.15, 1987 | 1,028.75 |
| Jan. 1 to Feb. 28, 1987 | 313,208.27 |
| Mar. 1 to Dec. 31, 1987 | 70,074.89 |
| Jan. 1 to Mar. 31, 1987 | 273,323.43 |
| Oct. 1 to Dec. 31, 1988 | 273,610.01 |
| Aug. 23, 1987 to Mar. 1, 1988 | 24,405.88 |
| July 1 to Sept. 30, 1988 | 17,447.12 |
| Sept. 23, 1987 to May 31, 1988 | 25,287.48 |
| Jan. 1 to Dec. 31, 1988 | 84,072.24 |
| Dec. 6, 1986 to May 31, 1988 | 90,176.26 |
| Jan. 1 to Mar. 31, 1988 | 286,579.35 |
| June 1 to June 30, 1988 | 63,174.78 |
| Oct. 16, 1987 to Apr. 29, 1988 | 27,129.25 |
| Jan. 18 to Mar. 29, 1988 | 9,557.97 |
| Apr. 1 to June 30, 1988 | 279,284.54 |
| Oct. 1 to Dec. 31, 1988 | 19,672.67 |
| July 1 to Sept. 30, 1988 | 268,507.92 |
| Jan. 1 to Dec. 31, 1988 | 123,924.46 |
| December 31, 1989 | 23,686.69 |
| Through Dec. 31, 1989 | 21,655.11 |
| Jan. 1989 | 123,712.22 |
| Jan. 1 to Mar. 31, 1989 | 297,116.82 |
| Through Jan. 15, 1989 | 33,647.86 |
| Apr. 1 to June 30, 1989 | 297,119.01 |
| Aug. 1989 to Dec. 31, 1989 | 6,451.33 |
| July 1 to Sept. 30, 1989 | 290,515.95 |
| Jan. 20 to May 31, 1989 | 21,459.81 |
| Jan. 1 to Dec. 31, 1989 | 61,336.18 |
| May 1, 1988 to Mar. 24, 1989 | 43,661.59 |
| Oct. 1 to Dec. 31, 1989 | 295,825.70 |
| Feb. 1 to Apr. 12, 1990 | 1,029.46 |
| From Aug. 1, 1990 | 36,485.27 |
| Jan. 17 to May 24, 1990 | 141,668.91 |
| From Aug. 1, 1990 | 201,379.10 |
| Sept. 25, 1989 to Jan. 31, 1990 | 7,424.80 |
| Apr. 1 to June 30, 1990 | 296,494.51 |
| Jan. 1 to March 31, 1990 | $295,495.88 |
| TOTAL AMOUNT | $11,434,262.17 |

1st AMERICAN

MEMORANDUM

TO: RICHARD D. BARRETT

FROM: SELMA HABIB

DATE: 6/16/86

Subject: BCCI

Bank of Credit and Commerce International Societe Anonyme, Washington D.C. Representative Office, is headed by Mr. Sani Ahmad, Cheif Representative. It is not a full service, deposit taking branch but rather an information gathering office involved also in developing business for FABNA. Some of the same investors that own First American Bankshares, Inc. also own BCCI, and as a result, FABNA is often referred as being "like one of us" by its officers.

Presently, BCCI Wash. maintains its office account no. 3-294-560 since 2/7/84 when Maureen Lord and Wendy Livingston opened the account. Since its opening when I assisted Ms. Livingston in servicing the account, I have come to service, maintain, and develop our relationship with BCCI and its staff. The BCCI account has an average balance of $198,157.00. Among the staff of BCCI please note the following:

Mr. Sani Ahmad, Chief Representative: Mr. Ahmad is a 1-A customer and recently increased his asset-line to $200,000.00. He maintains three personal accounts with us and has referred several associates .

Mr. Amjad Awan, Officer: Mr. Awan is a signer on the account. He is our Latin connection. He maintains his personal account with us with an asset-line. He seems to be second in charge.

Mr. Abbas Haider, Officer: Mr. Haider is also a signer on the account. He maintains his personal account with us.

Mr. M. M. Ahmad, Adviser: He does not maintain his account with us; although we have tried to persuade him to switch from ASB.

Cathy Pyle, Officer: Formerly with Clifford & Warnke, Ms. Pyle handles all of Mr. Ahmad's personal affairs as well as office management matters. She maintains her accounts with us.

Dr. Dragoslav Avramovic, Economist: He has a PH.D. in Economics from the University of Belgrade. He was with the World Bank from 1953 - 1977. He maintains his personal accounts with us.

CONFIDENTIAL

FA0370432

1ST/AMERICAN
FIRST AMERICAN BANK N.A.

Shahid Khan, Officer: Mr. Khan is our Red China connection. He maintains his personal accounts with us.

Syed H. Wasti, Accountant: He is the main contact on the daily account transactions. He has assisted in making calls on prospects that BCCI has referred and many times actually completes the required paperwork to open an account.

First American Bank, N.A. uses BCCI's services for advising international letters of credit. We also advise letters of credit on their behalf. We also relay telexes through them. We do not maintain a correspondent relationship with BCCI; however, First American Bank of New York does maintain a correspondent relationship with BCCI London.

CONFIDENTIAL

FA0370433

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CABLE CLINCY
TELEX 248556 CLCY

TELEPHONE
(202) 828-4200

Clifford & Warnke
Attorneys and Counsellors at Law
815 Connecticut Avenue
Washington, D.C. 20006

BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT
191

ROBERT A. ALTMAN

DIRECT LINE (202) 828-4231

May 8, 1986

Mr. Swaleh Naqvi
Bank of Credit and Commerce
International
100 Leadenhall Street
London, England EC3A 3AD

Dear Mr. Navqi:

I am enclosing the memoranda concerning the acquisition of the National Bank of Georgia that we discussed in Luxembourg. Several points should be noted:

1. The memoranda consider a possible payment by the investors of 50-60 million dollars of their CCAH stock in addition to cash. It is hoped that in negotiations a payment involving CCAH stock would not be necessary. Any such payment that is required would have to come from the stock currently held by the investors since CCAH itself is not now acquiring the Company. When the investors subsequently contribute the NBG stock to CCAH, and receive additional shares of the Company, it will - depending on valuations - effectively dilute the initial ownership position of Dr. Pharaon in CCAH.

2. In discussions with Dr. Pharaon, it should be noted that significant tax advantages would appear to accrue to him by reason of the sale to the investors rather than a sale to NCNB.

3. In an analysis prepared by Mr. Scoffone, Senior Vice President and Treasurer of First American Bankshares, NBG financial statements as of March 31, 1986 were used which disclose stockholders' equity of 93.9 million. This figure is, of course, higher than the year-end numbers on which we had been relying, and which Dr. Pharaon had mentioned.

attached

4. In making our analysis, certain assumptions were necessary. These have generally been explained in footnotes in the documents.

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Mr. Swaleh Naqvi
May 8, 1986
Page 2

5. The transaction we structured contemplates $60 million in debt. It would be appropriate if BCCI itself wished to consider being a lender.

6. Our review makes clear that the creation of a separate company to acquire NBG until CCAH is able to own it would raise significant financial problems. Were our investor(s) to purchase the bank individually, or as a group, we could avoid these problems, including the creation of significant goodwill on the books of the bank.

7. It is hoped that negotiations would produce a deal for $160 - $175 million in cash, with no stock. Mr. Scoffone provides information concerning various other bank sales, but it is clear that we are nearing the point at which this purchase is too expensive. And, we have never seen a written bid from NCNB.

We understand that NCNB has leaked news of their NBG acquisition, and several brokers are aware of it. It becomes increasingly important to conclude this matter one way or the other as soon as possible.

If you have any questions, please call me. I trust you will forward this information to Mr. Abedi.

Sincerely,

Robert Altman

Robert A. Altman

Enclosures

MAY 8

MEMORANDUM

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BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
EXHIBIT
169

TO: Robert A. Altman

FROM: A. Vincent Scoffone AVS

SUBJECT: Acquisition of NBG

DATE: May 7, 1986

You have asked me to analyze the potential acquisition of the National Bank of Georgia ("NBG").

## Value of NBG

At March 31, 1986, NBG's total stockholders' equity was $93.9 million. For purposes of determining a fair value of NBG, I have assumed that NBG's tangible net worth is equal to its stated book value. NBG does report $27,000 in intangible assets but that amount is insignificant. The investment portfolio at year-end 1985 reflects appreciation of approximately $3 million. Offsetting this could be potential losses in the loan portfolio stemming from nearly $23 million in non-performing loans and other real estate.

## Potential Purchase Price

The latest information we have in house reflects that in the past twelve months 183 deals nationwide have been announced with 118 for stock and 65 for cash. The median purchase price to book value was 1.62x and the median purchase price to earnings was 12.56x. For NBG, this would put the purchase price at $152 million as a multiple of book and $161 million as a multiple of 1st quarter 1986 annualized earnings.

NBG may be a unique situation because of its location in Atlanta, Georgia and therefore a premium over the median purchase price may be appropriate. In reviewing sales of banks in Georgia, Florida and South Carolina, a median purchase price of 2.11x book value was determined. Once again the premium over the nationwide median purchase price is the result of these banks being located in the Southeast region of the United States.

It is my opinion that a fair purchase price for NBG would approximate 2.25x book value. This would yield a purchase price of $211 million. This would represent a multiple of 16.5x 1st quarter 1986 annualized earnings.

## Structure of Transaction

First American Bankshares, Inc. ("FABI") is prevented from acquiring NBG because of Georgia law requiring an out-of-state acquiror having 80% of its deposit base located in the Southeast Region, as defined. First American does not meet the deposit test because of its banks located in New York, Maryland and Washington, D.C.

It is my understanding that a least 25% of the purchase price would be funded by borrowed funds and that the remaining 75% would be funded through equity capital. I have looked at the possibility of setting up a foreign or domestic company to make the acquisition. Such a company would be considered a bank holding company and as such would have to make application to the Federal Reserve for approval.

In reviewing the financial aspects of the transaction, I have determined that this company would have difficulty in getting an application approved from two aspects. First, this company's potential cash flow from dividends from NBG and tax benefits derived from its tax operating losses would not be sufficient to fund the acquisition debt on a current basis. Secondly, at a purchase price of 2.25x book, significant goodwill would be generated. In viewing the capital adequacy of this company, the Federal Reserve would offset the goodwill against the equity capital, leaving this company in a poor capital adequacy position. I do not believe that setting up a shell bank holding company is the appropriate way to proceed.

A better way to proceed would be to have one or more of our foreign investors, individually or as a group agree to acquire NBG. Depending upon how the group is structured, Comptroller of the Currency and/or Federal Reserve approval would be necessary.

Economic Aspects of the Transaction

At a potential purchase price of $211 million, the deal could be structured with cash of $160 million and $51 million of Credit and Commerce American Holdings, N.V. ("CCAH") stock.

The $160 million in cash would come from two sources - 1) $100 million from investors own capital and 2) $60 million from a third party lender known to the investors such as BCCI or BAII.

The $51 million in CCAH stock would represent approximately 7,700 shares valued at approximately $6,600 per share or approximately 4.3% of outstanding shares.

Summary

In summary, this transaction would be highly beneficial to the present owner of NBG. The bank would be sold at a significant premium over both the national and local median sales prices. The seller would realize 75% of the proceeds in cash with the remaining 25% in stock of a company that has appreciated in value significantly in the past four years and whose potential for further appreciation is unlimited based upon the location of the assets of the company.

National Bank of Georgia
Acquisition Alternative

PHASE 1

1. One to four foreign Investors or more agree to acquire National Bank of Georgia ("NBG") individually or acting as a Group.

2. Regulatory approval will have to be obtained from either the Comptroller of the Currency or the Federal Reserve Board.

3. Consideration to be paid by the Investors for NBG will consist of the following:

   * $160 million in cash, plus, if necessary

   * $50 - $60 million in CCAH stock now owned by the Investors - stock and amount subject to negotiation with Seller (CCAH stock valued at 3 times book*)

4. Source of funds will be from the following:

   * $100 million from Investors own capital

   * $60 million from third party lender - BCCS or BAII could be lender

   * Such CCAH stock currently owned by Investors as needed

5. Result of transaction:

   * Investors own 100% of NBG

   * Seller of NBG owns approximately 5.0% of CCAH, if CCAH stock becomes part of purchase price



* It is noted that NCNB is currently trading at nearly 2 times book and could value its stock higher in negotiations with the Seller. A three times multiple for CCAH equals NBG's multiple in their deal and is not unreasonable.

National Bank of Georgia
Acquisition Alternative

10

**PHASE 2**

1. Best effort is made to persuade Federal Reserve or change Georgia law to allow CCAH to acquire NBG. (Estimated time to succeed - 1 year)

2. Investors then contribute 100% of NBG stock - valued at 3 times book* - in exchange for approximately 15,000 shares of CCAH and CCAH assumes $60 million debt.

3. CCAH records the stock of NBG on its books at underlying net assets.

4. CCAH contributes its 100% ownership in NBG down through the chain of companies to FABI and FABI assumes the debt of CCAH.

5. FABI records the 100% ownership in NBG at underlying net assets, assumes the $60 million in CCAH debt and records the difference as a capital contribution.

6. Result of transaction:

   * FABI owns 100% of NBG being carried at underlying net assets.

   * FABI's capital is increased by the difference between the underlying net assets of NBG and the assumption of the $60 million debt (approximating $25+ million).

   * FABI's long-term debt is increased by $60 million.

   * FABI's cash flow is sufficient to fund the acquisition debt.

   * FABI has acceptable debt/equity and capital/asset ratios following the acquisition of NBG by CCAH.

   * CCAH ownership by NBG seller is reduced to approximately 4.0%.

* including increase in NBG value during the year.

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**National Bank of Georgia**
**10 Year Projections**
**($ in millions)**

| | Average Assets[1] | Net Income[2] | Average Capital[3] | Dividends[4] |
|---|---|---|---|---|
| 1985 | $1,409.0 | $11.058 | $85.7 | $ - |
| 1986 | 1,620.0 | 14.580 | 97.2 | 3.1 |
| 1987 | 1,863.0 | 16.767 | 111.8 | 2.2 |
| 1988 | 2,143.0 | 19.287 | 128.6 | 2.5 |
| 1989 | 2,464.0 | 22.176 | 147.8 | 3.0 |
| 1990 | 2,834.0 | 25.506 | 170.0 | 3.3 |
| 1991 | 3,259.0 | 29.331 | 195.5 | 3.8 |
| 1992 | 3,748.0 | 33.732 | [illegible] | 4.3 |
| 1993 | 4,310.0 | 38.790 | [illegible] | 5.1 |
| 1994 | 4,957.0 | [illegible] | [illegible] | 5.8 |
| 1995 | 5,700.0 | 51.300 | 342.0 | 6.7 |
| 1996 | 6,555.0 | 58.995 | 393.3 | 7.7 |

1 15% Compound Growth

2 0.9% Return on Assets

3 6% Gross Capital to Asset Ratio

4 Amount to maintain 6% Capital Ratio

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National Bank of Georgia
Acquisition Debt
($ in millions)

| | Debt Outstanding[1] | Interest[2] | Principal[3] | Total Debt Service |
|---|---|---|---|---|
| 1986 | $60.0 | $6.0 | $ - | $ 6.0 |
| 1987 | 60.0 | 6.0 | - | 6.0 |
| 1988 | 60.0 | 6.0 | - | 6.0 |
| 1989 | 60.0 | 6.0 | - | 6.0 |
| 1990 | 54.0 | 5.4 | 6.0 | 11.4 |
| 1991 | 48.0 | 4.8 | 6.0 | 10.8 |
| 1992 | 40.0 | 4.0 | 8.0 | 12.0 |
| 1993 | 32.0 | 3.2 | 8.0 | 11.2 |
| 1994 | 22.0 | 2.2 | 10.0 | 12.2 |
| 1995 | 12.0 | 1.2 | 10.0 | 11.2 |
| 1996 | - | - | 12.0 | 12.0 |



1 Assumed takedown at 1/1/86.

2 Average interest rate over life of debt fixed at 10%.

3 Principal payments begin in 4th year and escalate.

National Bank of Georgia
Cash Flow Related to Acquisition
($ in millions)

| | Dividends[1] | Tax Benefits[2] | Total Cash Inflow | Debt Service[3] | Net Cash Flow |
|---|---|---|---|---|---|
| 1986 | $ 3.1* | $2.8 | $ 5.9 | $ 6.0 | $-0.1 |
| 1987 | 2.2 | 2.8 | 5.0 | 6.0 | -1.0 |
| 1988 | 2.5 | 2.8 | 5.3 | 6.0 | -0.7 |
| 1989 | 3.0 | 2.8 | 5.8 | 6.0 | -0.2 |
| 1990 | 3.3 | 2.5 | 5.8 | 11.4 | -5.6 |
| 1991 | 3.8 | 2.2 | 6.0 | 10.8 | -4.8 |
| 1992 | 4.3 | 1.8 | 6.1 | 12.0 | -5.9 |
| 1993 | 5.1 | 1.5 | [illegible] | 11.2 | -4.6 |
| 1994 | 5.8 | 1.0 | [illegible] | 12.2 | -5.4 |
| 1995 | 6.7 | [illegible] | [illegible] | 11.2 | -3.9 |
| 1996 | 7.7 | | 7.7 | 12.0 | -4.3 |



1 Dividends from NBG based upon 15% asset growth, 0.9% return on assets, and adjusted to maintain 6% capital ratio.

2 46% of interest expense.

3 Principal and interest payments (at 10%) on $60 million debt - first 4 years interest only.

* Dividends can not be paid in 1986 without incurring 30% withholding tax. Investors would have to service debt for first year until CCAH acquires NBG.

First American Bankshares, Inc.
Acquisition Ratios
($ in millions)

99

## Primary Capital to Asset Ratio

| | |
|---|---|
| Total Assets Projected at 12/31/86 | |
| First American Bankshares, Inc. | $6,785.0 |
| National Bank of Georgia | 1,620.0 |
| Total Consolidated Assets | 8,405.0 |
| Add: | |
| Projected Reserve for Loan Losses | |
| First American Bankshares, Inc. | 39.0 |
| National Bank of Georgia | 13.6 |
| | 52.6 |
| Adjusted Consolidated Assets | $8,457.6 |

| | |
|---|---|
| Total Capital Projected at 12/31/86, including capital injection of $25 million during 1986 | $ 397.2 |
| Capital Contribution resulting from the NBG acquisition | 25.0 |
| Total Consolidated Capital | 422.2 |
| Projected Reserve for Loan Losses, as above | 52.6 |
| Adjusted Primary Capital | $ 474.8 |

Primary Capital Ratio (Regulatory Minimum - 5.50% — 5.61%

Total Capital Ratio - depends upon long-term debt used for this purpose

## Parent Debt to Equity Ratio

| | |
|---|---|
| Projected Debt at 12/31/86 | |
| First American Bankshares, Inc. | $ 50.0 |
| NBGFC Existing Long-term Debt | 21.0 |
| NBG Acquisition Debt | 60.0 |
| Total Parent Debt | $ 131.0 |
| Projected Parent Company Capital | $ 422.2 |
| Debt to Equity Ratio | 31.0% |

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Credit and Commerce American Holdings, N.V.
Analysis of Fair Value
As of December 31, 1985
($ in millions except per share)

| | Shares | Amount | Per Share |
|---|---|---|---|
| Shareholders' Equity | 156,075 | $ 342,712 | $2,195.82 |
| Loan from an Investor to be converted to Common Equity | 11,602 | 25,475 | $2,195.82 |
| Projected Capital Injection from shareholders | 11,385 | 25,000 | $2,195.82 |
| | 179,062 | 393,187 | $2,195.82 |
| Fair Value Multiple | | 3 X | |
| Total Fair Value | | $1,179,561 | $6,587.46 |
| Fair Value of Stock to be exchanged by Investors for NBG | 9,108 | $ 60,000 | $6,587.46 |
| 9,108 / 179,062 = 5.09% | | | |
| Fair Value of Stock to be exchanged for 100% of NBG | 45,540 | $ 100,000 | $2,195.82 |

9,108 / (179,062 + 45,540) = 4.06%

1stA FIRST AMERICAN BANKSHARES, INC.

September 26, 1991

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
The U.S. House of Representatives
Rayburn House Office Building, Room 2129
Washington, D.C. 20515

Dear Chairman Gonzalez:

Your letter to me of August 27, 1991 listed ten questions to which the Committee directed my particular attention. The following written statement addresses each of these questions in a question-answer format. I hope that you find that my responses are of assistance to you and the Committee in your investigation.

1. **A brief overview of your background.**

I am a 1937 graduate of Ponoma College, Claremont California, where I also obtained an M.A. in 1939. I have also attended Harvard Graduate School and American University's School of Public Administration. From 1939 to 1952, I served in the Government Bureau of Budget in various capacities, including Assistant Director for Management, Executive Assistant Director of the Bureau, liaison with White House staff, and Assistant to the Director of OWMR. During that period, I also served in the United States Navy for three years.

In 1952, I was hired as Budget Officer by the Continental Can Group The following year, I was promoted to the position of Vice President-Finance and ultimately became Executive Vice President for Finance and Administration. I left Continental Can in 1976 to become the Chief Executive Officer of Field Enterprises in Chicago, Illinois.

Over the years, I have served on the boards of directors of twelve companies listed on the major stock exchanges. For example, I was a member of the Board of Irving Trust Company from 1974 to 1981. In addition, I have served on numerous government and private boards.

15th and H Streets, N.W. Washington, DC 20005 (202) 383-1400

The Honorable Henry B. Gonzalez
September 26, 1991
Page 2

2. **How you first became involved with First American Bankshares including the individuals that introduced you to representatives of that institution.**

I have known Clark Clifford since the time he was a Presidential Assistant, and I have spoken with him about government and legislative matters from time to time over the years. In the Autumn of 1989, Mr. Clifford assisted me in editing an article about the career of Mr. Frank Pace for the Journal of Public Administration. This renewed our acquaintance, and he then discussed with me the opportunity to serve on the Board of First American Bankshares.

3. **Describe your positions with, responsibilities to, and functions at, First American Bankshares. Please provide any relevant descriptive documents.**

I served First American Bankshares as a Director, attended quarterly meetings and reviewed financial and management reports that were distributed to the directors. I also served on the Audit Committee of the Board, attended its meetings and reviewed substantive reports presented to the Committee.

4. **Explain your understanding of the relationship between Mr. Clifford and Mr. Altman, Clifford & Warnke and BCCI. Did you ever have knowledge of BCCI ownership or control of CCAH, CCAI or First American? Did BCCI ever influence the management practices of CCAH, CCAI or First American? Please explain.**

I am aware that Clifford & Warnke has served as legal counsel to BCCI. I have no specific knowledge of any ownership of, or control or influence over, First American Bankshares by BCCI or its representatives. I had no dealings with any shareholders. Mr. Clifford had told me that one of his conditions to accepting the position of Chairman was that he be the sole representative of the overseas investors in the management of the company.

5. **A history of your financial relationships including loans, stock ownership, and compensation, in any capacity, with BCCI, ICIC, CCAH, CCAI, and First American.**

I have had no financial relationship of any kind with BCCI, ICIC, CCAH, CCAI or First American.

6. **Please explain any actions performed by you, in any capacity, in facilitating the purchase of Financial General Bankshares, or CCAH by foreign investors.**

I performed no actions, in any capacity, with regard to the purchase of these entities.

7. **Please explain any actions performed by you, in any capacity, in assisting the purchase by First American of the National Bank of Georgia, Bank of Escambia, or any other financial institution.**

I performed no actions, in any capacity, with regard to such transactions.

8. **Please explain any services rendered by you, if any, in any capacity, in assisting Mr. Ghaith Pharaon's purchase or sale of any bank or nonbank entity in the U.S. including Independence Bank and National Bank of Georgia.**

I rendered no services to Mr. Pharaon with regard to any such transactions.

9. **Please describe your role with regard to the BCCI Legal Defense Fund. Were you aware of First American's involvement in the defense fund?**

I had no role with regard to the BCCI Legal Defense Fund and was not aware of its existence. Moreover, I have had no contacts of any sort with BCCI.

10. **Were you aware of BCCI loans to Mr. Clifford and Mr. Altman? Please explain.**

I was not aware of the loans to Mr. Altman and Mr. Clifford until February of 1991, when Mr. Lewis, First American's auditor, met with me and Senator Mathias to report the existence of these loans. Senator Mathias and I then met with Messrs. Clifford and Altman later that morning to discuss their loans from BCCI. I have since been in contact with representatives of the Federal Reserve, both in Washington and in Richmond, with regard to these and related matters.

I would be happy to comment on any more specific questions that the Committee would have concerning First American Bankshares when I appear before you on September 27, 1991. Certainly, the issues posed by current events are of significant importance.

Sincerely,

C B Stauffacher

Charles B. Stauffacher

FIRST AMERICAN BANKSHARES, INC.

September 26, 1991

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
The U.S. House of Representatives
Rayburn House Office Building, Room 2129
Washington, D.C. 20515

Dear Chairman Gonzalez:

By letter to me dated August 27, 1991, you requested that I answer ten specific questions in the course of my testimony before the Committee on Banking, Finance and Urban Affairs. My responses to these questions follow herein, in order to assist your and the Committee's investigation.

1. **A brief overview of your background.**

I am a graduate of The Pennsylvania State University, where I received a B.A. in Economics in 1967 and an M.B.A. in 1969. I also passed the certified public accountants' examination in May of 1973.

After completion of my studies, I was hired as an Accounting Specialist by the U.S. Army Medical Research and Development Command. In 1971, I changed positions and joined the Martin Marietta Corporation as a Senior Financial Analyst and remained in that position until February of 1974. I then became Vice President and Controller of Bank of Virginia, where I was responsible for the financial management function for five banks ranging in size from $5 million to $200 million.

I left Bank of Virginia in 1976 to join First American Bank of Maryland as Vice President, Finance. During the next thirteen years, my positions with the institution became increasingly responsible, as I was promoted to Senior Vice President, Executive Vice President, and President and Chief Executive Officer. In May of 1989, I was appointed Executive Vice President and Chief Financial Officer of First American Bankshares and was responsible for budgeting, financial planning, accounting, risk management, strategic planning, auditing and oversight of

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the company's data processing operations. In June of 1991, my title was changed to Executive Vice President and Chief Operating Officer, and I am currently responsible for the oversight of the operations of the company's subsidiaries and all financial and auditing functions.

2. **How you first became involved with First American Bankshares including the individuals that introduced you to representatives of that institution.**

I joined what was the predecessor institution to First American Bank of Maryland in March of 1976, after being recruited by its newly elected CEO, G.J. Manderfield, for whom I had worked at Bank of Virginia. I remained with the institution after the acquisition of Financial General Bankshares by CCAH.

3. **Describe your positions with, responsibilities to, and functions at, First American Bankshares. Please provide any relevant descriptive documents.**

As noted in my response to your first question, I was appointed Executive Vice President and Chief Financial Officer of First American Bankshares in May of 1989 and remained in that position until June of 1991. My responsibilities at that time included budgeting, financial planning, accounting, risk management, strategic planning, auditing and oversight of the company's data processing operations. Thereafter, and to the present time, I have served as Executive Vice President and Chief Operating Officer and am responsible for the oversight of the operations of the company's subsidiaries and all financial and auditing functions. In addition, since May of 1989, I have served on the Boards of Directors of First American Bank of New York and First American Bank of Georgia, as well as First American Bankshares, Inc.

4. **Explain your understanding of the relationship between Mr. Clifford and Mr. Altman, Clifford & Warnke and BCCI. Did you ever have knowledge of BCCI ownership or control of CCAH, CCAI or First American? Did BCCI ever influence the management practices of CCAH, CCAI or First American? Please explain.**

It was my understanding that Mr. Clifford and Mr. Altman provided various legal services for BCCI.

I had no knowledge of BCCI's alleged ownership or control of CCAH. Over the years, I have served First American or its subsidiaries in various management positions. At no time have I ever experienced or seen any direct evidence of any control or influence over management or board of directors' decisions by BCCI.

5. **A history of your financial relationships including loans, stock ownership, and compensation, in any capacity, with BCCI, ICIC, CCAH, CCAI, and First American.**

I have never had any financial relationship with BCCI, ICIC, CCAH, or CCAI. Similarly, I have never owned any stock in BCCI, ICIC, CCAH, CCAI or First American Bankshares, Inc. Moreover, I have never received any direct or indirect compensation from BCCI, ICIC, CCAH, or CCAI.

Over the years, I have had routine credit card, installment and mortgage loans from First American Bank of Maryland. These loans were made on the same terms as loans made to any other customer and were disclosed each year in regulatory filings.

In 1981, I purchased 1302 shares in First American Bank of Maryland as a personal investment. These shares were purchased with my personal savings and loans from D.C. National Bank, Signet and Continental Bank. They were held in my name and in my children's names. In 1989, I sold these shares to First American Bankshares during its buy-back of all outstanding minority shares in its subsidiary institutions. The transaction was on the same terms as similar transactions with all other minority shareholders. I had purchased the shares for approximately $11 per share and sold them for $42 per share.

During my tenure with First American Bank of Maryland and First American Bankshares, Inc., I also received a salary and fringe benefits under the standard salary and benefit programs of the company and its subsidiaries.

6. **Please explain any actions performed by you, in any capacity, in facilitating the purchase of Financial General Bankshares, or CCAH by foreign investors.**

I had no role in the purchase of Financial General Bankshares or CCAH by foreign investors, other than appearing with Messrs. Clifford and Altman at a Maryland Banking Commission hearing that was part of the regulatory approval process during the Financial General acquisition.

The Honorable Henry B. Gonzalez
September 26, 1991
Page 5

10. **Were you aware of BCCI loans to Mr. Clifford and Mr. Altman? Please explain.**

I had absolutely no knowledge of any BCCI loans to Messrs. Clifford or Altman until the summer of 1990, when I learned something of their stock-purchase transactions from Paul Adams, our Chief Financial Officer, and James Lewis, our internal auditor, who discovered the existence of the transactions during an internal audit of ties between BCCI and First American. I did not learn of Messrs. Clifford's and Altman's profits on the stock transactions until mid-1991.

I trust that these responses will be of assistance to your efforts, and I look forward to appearing before you and the Banking Committee on September 27, 1991.

Sincerely,

Jack W. Beddow

Jack W. Beddow

The Honorable Henry B. Gonzalez
September 26, 1991
Page 4

7. **Please explain any actions performed by you, in any capacity, in assisting the purchase by First American of the National Bank of Georgia, Bank of Escambia, or any other financial institution.**

I had no role in the purchase of the National Bank of Georgia or Bank of Escambia. While serving as an officer of First American Bank of Maryland, I was involved in the purchase of Lincoln National Bank in 1981.

8. **Please explain any services rendered by you, if any, in any capacity, in assisting Mr. Ghaith Pharaon's purchase or sale of any bank or nonbank entity in the U.S. including Independence Bank and National Bank of Georgia.**

I did not provide any services in any capacity to Mr. Ghaith Pharaon in connection with the purchase or sale of any bank or nonbank entity in the United States.

9. **Please describe your role with regard to the BCCI Legal Defense Fund. Were you aware of First American's involvement in the defense fund?**

I had no role with regard to the BCCI Legal Defense Fund. I was not aware and remain unaware of any involvement by First American in the defense fund.

10. **Were you aware of BCCI loans to Mr. Clifford and Mr. Altman? Please explain.**

I became aware of the BCCI loans in July 1990 during the course of an internal audit review.

These responses reflect my knowledge of the subjects that you addressed in your letter. I look forward to appearing before you at the hearing of the Committee on September 27, 1991.

Sincerely,

Paul Adams III

Paul G. Adams, III

FIRST AMERICAN BANKSHARES, INC.

September 26, 1991

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
The U.S. House of Representatives
Rayburn House Office Building, Room 2129
Washington, D.C. 20515

Dear Chairman Gonzalez:

Your letter to me of August 27, 1991 requested that I address ten specific areas of inquiry. In order to assist your and the Committee's investigation of BCCI, the following written statement responds, to the extent my personal knowledge permits, to your request.

1. **A brief overview of your background.**

I was born in Lundale, West Virginia on December 23, 1921. I received an A.B. degree from West Virginia University in 1943, entered the United States Army in 1943, and returned to West Virginia University where I obtained an LL.B. degree in 1948. Upon completion of my legal studies, I joined the law firm of Valentine & Beddow in Logan, West Virginia, where I practiced law for the next seventeen years. I resigned from that firm in December of 1965 to become Associate Chief Counsel of the Economic Development Administration at the U.S. Department of Commerce, which position I held from January 1966 through August 1970. After my tenure at Commerce, I was hired as a Vice President by First National Bank of Washington, a subsidiary of Financial General Bankshares, the predecessor of First American Bankshares. In January 1975, I was promoted to Vice President and Secretary of Financial General Bankshares, the position that I maintained when Financial General was acquired by Commerce and Credit American Holdings N.V. ("CCAH") in 1982.

15th and H Streets, N.W. Washington, DC 20005 (202) 383-1400

2. **How you first became involved with First American Bankshares including the individuals that introduced you to representatives of that institution.**

As noted above, I began my employment with the institution in 1970, and I was an officer of Financial General Bankshares at the time it was acquired by CCAH. After an agreement permitting the acquisition was entered into by the Board of Directors of Financial General in 1980, I was required to cooperate with the efforts of Mr. Clifford and Mr. Altman to complete the acquisition on behalf of the investors. After the acquisition was completed, I was made a director of First American Bankshares.

3. **Describe your positions with, responsibilities to, and functions at, First American Bankshares. Please provide any relevant descriptive documents.**

As stated above, I was employed by the First National Bank of Washington, a subsidiary of Financial General Bankshares, and retained my position with the successor First American subsidiary following the acquisition of that institution. On April 14, 1982, I was made a director of First American, and, in February of 1983, I was appointed corporate secretary of First American Corporation, an intermediate holding company. Finally, on July 1, 1989, I was made President and Chief Executive Officer of First American Bankshares. In October 1989, I was also elected a director of CCAH.

4. **Explain your understanding of the relationship between Mr. Clifford and Mr. Altman, Clifford & Warnke and BCCI. Did you ever have knowledge of BCCI ownership or control of CCAH, CCAI or First American? Did BCCI ever influence the management practices of CCAH, CCAI or First American? Please explain.**

My understanding was that the law firm of Messrs. Clifford and Altman, Clifford & Warnke, was counsel to BCCI. I do not know the extent or scope of that relationship.

Before stories began to surface in the press over the past year, I do not know of any ownership or control of First American or its parent companies by BCCI. I have never seen and have no personal knowledge of the contracts that are alleged to give BCCI control over certain shares of CCAH stock.

The Honorable Henry B. Gonzalez
September 26, 1991
Page 3

I also have no personal knowledge that BCCI directed or influenced any management decisions at First American. I had no involvement with CCAH or CCAI, until I was made a director of CCAH in 1989. I have never been contacted by BCCI during the course of my employment.

5. **A history of your financial relationships including loans, stock ownership, and compensation, in any capacity, with BCCI, ICIC, CCAH, CCAI, and First American.**

I have had no financial relationship of any kind with CCAH, CCAI, ICIC or BCCI. As an officer of First American, I have received a salary and fringe benefits under the standard salary and benefit programs of the company and its subsidiaries. I also, at one time, received director's fees as a director of certain of the First American subsidiaries. From time to time during my twenty years with First American, I have received, and promptly repaid, fully secured loans from First American Bank of Washington, which at no time exceeded $10,000. Moreover, each such loan was extended to me on the same terms as were offered to other customers of the banking subsidiaries. At the present time, I have a conventional home equity line of credit with First American Bank of Maryland, under which no sums are outstanding.

As required by law, I own director's qualifying shares of non-voting preferred stock in the holding companies of the two banks of which I am presently a director. I have also owned, at various times, qualifying shares in other subsidiaries of First American in similarly nominal amounts. Before the acquisition of Financial General Bankshares, I owned shares of that publicly traded company both directly and indirectly through an Employee Stock Ownership Plan.

6. **Please explain any actions performed by you, in any capacity, in facilitating the purchase of Financial General Bankshares, or CCAH by foreign investors.**

After an acquisition agreement was entered into by Financial General's Board of Directors and was approved by the shareholders, it became my role to assist the legal representatives of the new investors in their efforts to formally complete the acquisition, primarily by providing information relating to Financial General needed to obtain necessary state and federal regulatory approvals of the transaction.

7. **Please explain any actions performed by you, in any capacity, in assisting the purchase by First American of the National Bank of Georgia, Bank of Escambia, or any other financial institution.**

The National Bank of Georgia transaction was handled primarily by CCAH, though First American was used as the corporate vehicle through which the transaction was completed. The option agreement was entered into and the option was purchased by CCAH. Just before completion of the acquisition, the option was assigned to First American Bankshares. Funds from the CCAH shareholders were then downstreamed to First American, to complete the purchase of the National Bank of Georgia. As an officer and director of First American Bankshares, I was provided information concerning the acquisition from time to time. I was not, however, actively involved in negotiating or evaluating this transaction.

The Bank of Escambia transaction was not a "purchase" as such: the Bank of Escambia was in default on its debt to First American Bank of Georgia and was taken in foreclosure. As I recall, due to my position at First American Bankshares, I would have reviewed documents relating to the retention of the Bank of Escambia after foreclosure; however, my involvement in that transaction was not substantial. The Bank of Escambia was not acquired by First American Bankshares but by First American Bank of Georgia.

8. **Please explain any services rendered by you, if any, in any capacity, in assisting Mr. Ghaith Pharaon's purchase or sale of any bank or nonbank entity in the U.S. including Independence Bank and National Bank of Georgia.**

I have never met Ghaith Pharaon and have never rendered any services to him in any capacity.

9. **Please describe your role with regard to the BCCI Legal Defense Fund. Were you aware of First American's involvement in the defense fund?**

I have had no role in connection with the BCCI Legal Defense Fund; in fact, I was not even aware that it existed, until some time within the last year.

1st AMERICAN
FIRST AMERICAN BANK OF NEW YORK

DATE: 10/8/87

MEMORANDUM

TO: See Distribution

FROM: Robert L. Montano

SUBJECT: Minutes

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Attached are the minutes of the September 29, 1987 International Coordinating Committee Meeting held in Washington, D.C.

RLM

**Distribution List**

K. Elley
J. Cangelosi
R. Barrett
M. Lord
K. Shawish
M. McDonald
W. vonBerg
A. McKenzie
V. Cater
A. Valdes

FA0371862

MINUTES OF THE INTERNATIONAL COORDINATING COMMITTEE MEETING
SEPTEMBER 29, 1987
WASHINGTON, D.C.

<u>Present:</u>

K. Elley, FABNY
R. Montano, FABNY
J. Cangelosi, FABNY
R. Barrett, FABNA
M. Lord, FABNA
K. Shawish, FABNA
M. McDonald, FABNA
W. vonBerg, FABVA
A. McKenzie, FABMD
V. Cater, NBG
A. Valdes, NBG Int'l

<u>Luncheon Guests:</u>

R. Stevens, FABI
W. Duncan, FABNY

Mr. Montano called the meeting to order at 11:10 a.m., and introduced Mr. Elley as the New Committee Chairman.

Mr. Elley greeted the members, and indicated while serving on the Committee is new to him, he has followed the Committee's activities and welcomes the opportunity to serve. He stressed continuity, but at the same time thought it appropriate to review the Committee's goals and objectives. He preferred that the primary goal would be to further integrate the overall First American Group role in international through an organized pooling of resources.

He highlighted a Seminar on Regional Banking held on 9/25 that he and Ms. Lord attended to present an industry overview and First American's role within the international banking community. It was noted that certain regionals and super regionals, especially those who get "burned" with LDC sovereign risk exposure, have de-emphasized the activity, and have had a defensive-type posture of primarily serving the international needs of its clients, especially trade finance activity where return and risk minimization were viewed as favorable.

Overall strategies were grouped into 3 categories: 1) defensive; 2) specializing in niches such as specific overseas areas or special products such as letters of credit; 3) global activity including broad geographic coverage and overseas locations. While most regionals seemed to be in categories one and two, areas of emphasis varied. Mr. Elley mentioned that several regionals and Money Center Banks such as Security Pacific have invested heavily enhancing their Letter of Credit systems.

FA0371863

Mr. Elley opened the floor to discussion as to First American's strategy. Mr. Barrett placed us primarily in the niche category with focus on such areas as international private banking, trade finance and embassy services. Mr. Montano added that our strategy is also defensive in the sense that efforts are underway to educate all officers in the First American system as to our international capabilities so that potential business or existing clients will not be lost.

A listing of First American competitive advantages followed, including the following:

1. East Cost coverage - First American has unique coverage of the East Coast, a growing market.

2. The international character of our shareholders and their interests in BCCI and National Commercial Bank affords good business assistance possibilities to clients, and affords business opportunities with banking systems that have an extensive overseas presence.

3. Firm Senior Management commitment from Mr. Clifford on down to conduct international business. This affords staying power.

4. Lack of LDC exposure affords flexibility and permits operating with a clean slate.

5. The New York City presence is important both because of New York City being a center of international banking activity, and also because of extensive system capabilities being in place for payment systems (CHIPS, SWIFT), letter of credit, foreign exchange and documentary collection. The systems are in, and have unused capacity.

6. Specialized expertise in such areas as trade finance, embassy banking services and selected geographic areas (e.g. Central America, Turkey, Australia).

Mr. Elley stated we are capable of further advances and that a more cohesive structure and better understanding of each other's market would be helpful for cross-selling and enhanced growth.

**CURRENT TRANSACTIONS**

1. Miss McDonald reported a major relationship award with the Australian Embassy which will result in major deposit generation activity. She also reported expansion of their depository relationship with the Mexican military and development of a centralized payments system for the Government of Mexico. Other Embassy activity involves Canada, New Zealand, Thailand and Spain.

FA0371864

2. Mr. Shawish reported on several Arab countries, and indicated PL 480 and CCC business was pending with Sri Lanka.

3. Mr. vonBerg reported on the Saar Foundation which was introduced by Mr. Shawish. Low 7 balances are maintained and a $5 MM credit facility has been requested.

4. Miss McKenzie reported a $400 M import L/C facility has been established involving Benetton.

**REVIEW OF EXISTING TRANSACTIONS**

1. Ms. Lord reported that the $15 MM Unisa Shoe import facility is proceeding nicely and that NBG Int'l has provided good support.

2. Ms. McKenzie reported the second SWUCO standby (payment guarantee) L/C has been opened for $4.3 million with FABNA, FABNY and FABMD each taking a portion. $20-30 million of additional standby L/C business is pending.

3. Mr. Montano reported that the $7 MM Servac L/C facility is close to fully utilized, and that the participation from sister banks will be formally requested if customer requirements increase.

**EXPORT FINANCE COMMITTEE**

Trade finance ad - Mr. Montano reported that the Wall Street Journal trade finance ad will be run 5 times, with the first ad scheduled for tomorrow (9/30). Attendees were reminded to have phone coverage prepared, and for inquiries to be tracked.

Trade Finance Seminar - A Senior Officer Metro Bank seminar has been scheduled for Oct. 1st with four subsequent trade finance seminars for calling officers to be given in Washington, Silver Spring, McLean and Norfolk.

Iraq/Trade Finance Facility - Messers Barrett, Cater and Montano reviewed the pending $25-30 million FCIA insured facility covering U.S. exports to Iraq. A meeting was scheduled to meet with Iraqi officials the following day (subsequently held).

International Operations Report - Mr. Cangelosi reported on continuing efforts by FABNY to provide good international services to Sister banks. Mr. Elley urged the importance of quality service. Mr. Cangelosi announced there will be an International Operations Committee Meeting on November 3 to discuss topics including: a) L/C system enhancement and integration; b) international payments coordination; c) integrating and consolidating country exposure reporting systems.

Mr. Elley requested a detailed report quantifying international operational capacity of each bank, and quantifying transactions of each type being done by the individual banks. This information would form the basis for recommendations relating to additional investments which may need to be made to improve the operational capability of the group to support future international activity, prominent amongst them will be an evaluation of the trade finance back office capabilities.

OPEN FORUM

In a group discussion it was concluded FABI should be contacted regarding definitional refinements on sovereign risk lending and prime rate pricing. As regards sovereign risk lending it was thought the distinction between general purpose lending to sovereign governments should be distinguished from lending to sovereign entity on a trade finance transaction, or in the case of lending to a self-sustaining government-owned entity. As regards prime rate pricing it was felt the criteria was frequently irrelevant in international lending as base rates such as LIBOR and bankers acceptance rates were frequently employed.

Mr. Elley stressed the importance of cooperation and knowing relative strengths within the Group. In this regard a formalized document for Group distribution will be prepared. He stated that there was also a need to have a common set of objectives and perhaps at the next meeting we could discuss joint plans for 1988. In the meantime a greater sharing of information would greatly enhance the opportunities for more business. This sharing (a lot of which was already happening) could be in the form of circulating call reports amongst the members of the committee and continued frequent telephone contact to discuss various deals and possibilities as they emerged.

It was agreed to hold the next meeting on Wednesday, December 2nd, 11 a.m. at FABVA, 1970 Chain Bridge Road, McLean, Virginia.

The Meeting adjourned at 4:30 p.m.

1STAMERICAN
FIRST AMERICAN BANK OF NEW YORK

AIJAZ AFRIC
Executive Vice President

January 9, 1986

Mr. Kayid Shawish
Vice President
First American Bank, N.A.
740 15th Street, N.W.
Washington, D.C. 20005

Re: Int'l. Committee Meeting, New York
January 23, 1986

Dear Kayid:

This letter is to confirm the above meeting which will be from 1:00-5:00 p.m. Sandwiches will be served at the meeting. Please come to my office on the 3rd floor.

Attached is the meeting Agenda.

Sincerely yours,

Attachment

cc: C.J. Richie, Jr. )- for your information
B.W. Blank )

350 Park Avenue • New York, N.Y. 10022-6084 • (212) 750-9898

FA0371867

## Agenda

Note: This Committee was established to carry out the international objectives of the First American Group banks. These specific objectives, prepared by the Group Planning Committee in July 1984, are attached for your guidance as they are fundamental to our discussions and deliberations.

= **Taking stock of 1985**

- what have New York and the represented Group banks done, both individually and collectively, during 1985 to achieve international objectives?

- How has New York, as "flagship bank" for international progressed?

= What assistance do Group banks need from New York

- Treasury area

- Corporate lending area

- Foreign correspondent area

- Trade finance area

- Private Banking area

= Coordination of overseas calling

= List of New York's services

= New York and Washington's lists of:

- Due-To accounts

- Due-From accounts

- Foreign and US banks holding our:
  Agency Arrangements
  Signature Lists
  Test Key

= New Schedule of International Charges

FA0371868

Agenda

- Discuss Washington/New York interfacing in:
  - Private Banking
  - Correspondents
  - Due-To/Due-From accounts
  - Calls
- Structure of procedures applicable to all Group banks
- Any other business

Attachment

## INTERNATIONAL COMMITTEE REPORT

The following are the stated international objectives of the First American Group banks as agreed by the Planning Committee on July 25, 1984:

1. To develop an important international banking expertize concentrated at First American Bank of New York, New York.

2. To increase our share of the banking business of foreign embassies and consulates in Washington, D.C., and at the United Nations, New York.

3. To seek to take advantage of banking opportunities at the international finance agencies located in Washington, D.C., including the development of the expertize necessary to evaluate and serve this market.

4. To emphasize trade financing and coordinate such efforts among the First American Banks to take advantage of our banking presence at the ports of Albany, New York City, Baltimore and Norfolk.

5. To identify ethnic markets in New York and Washington and offer First American as a banking organization that would well serve the domestic and international banking needs of such customers.

6. To coordinate foreign exchange activity through First American's foreign exchange desk in New York City.

7. To develop a widespread network of correspondent banks which will utilize the services of First American Bank of New York, New York, for clearing and a variety of other transactions.

FA0371870

**SUMMARIZED MINUTES OF THE**
**FAB GROUP INTERNATIONAL COMMITTEE MEETING**
**HELD ON THURSDAY, JANUARY 23, 1986**

Venue: FABNY, New York, NY

Those attending:
A. Afridi, FABNY
M. Lord, FABW
D. Palmer, FABNY
P. Siems, FABMD
J. Topley, FABNY
W. vonBerg, FABV

R. G. Stevens -- by invitation
M. Shafi, FABNY -- by invitation as Secretary

- The meeting started with Mr. Stevens welcoming all participants. He hoped that 1986 would be a better year for all group banks, in that it would witness increased cooperation and coordination. He felt that the need existed to educate all staff to recognize the international business potential in their client relationships.

- While talking about the group objectives set in July 1984 and with reference to the agenda, Mr. Afridi asked Mr. Topley to summarize New York's progress to date. Mr. Topley mentioned FABNY's achievements in the last eighteen months of operations. Specifically, FABNY's capability to offer a complete package of international banking services and its ability to handle all kinds of transactions; which are complemented by IBF, Nassau branch, SWIFT, CHIPS and Fedwire. FABNY has established over 300 correspondent relationships, over 60 due to accounts and 19 due from accounts. Emphasis remains on establishing additional correspondent relationships worldwide including banks in the U.S., so that more DDA accounts, clearing, payments and letters of credit business can be generated. Emphasis remains on fee income to increase New York's profitability. Private banking section has succeeded deposit wise and is making a breakthrough in the consulates and UN missions based in New York City. A deposit relationship has been obtained from the United Nations too. Lack of a trade finance professional has been a drawback. Mr. Robert Montano, Vice President, Trade Finance shall be coming on board in the first week of February. He shall be coordinating trade financing with the group banks and an officer in Washington D.C. shall be taking his guidance on how best to proceed.

- Mr. Stevens stressed that communication between group banks regarding overseas calling trips should be of a type which would preclude duplication and wasted effort. Specifically for visits abroad, be they for correspondent banking or private banking, group banks particularly New York and Washington, D.C. should discuss travel plans with each other well in advance.

- Mr. Palmer reporting on dealing room activity informed participants that whereas there was hardly any activity upto mid 1985, it had increased to an average daily turnover of $150 mn in FX from July 1985. This represented between 50 - 75 transactions a day. The roster of active relationships now includes 65 U.S. and European banks. He further assured group banks that all major currencies will now be quoted by N. Y. Dealers at market prices. Quoting market prices implied good rates to group banks without any benefit to New York. It would be up to the individual banks to add points for their benefit depending on their relationships with clients and the size of the transactions. These currencies are Canadian Dollar, Belgian Francs, Deutsch Marks, Japanese Yen, Dutch Guilder, French Francs, Pound Sterling, Swiss Francs, Danish Kroner, Italian Liras and Finnish Marks. Responding to Ms. Lords query regarding exotic currencies, Mr. Palmer mentioned that although we could put them in touch with those who offer such currencies, it would be better for them to go directly to the regular registered exchanges.

- Mr. Afridi added that FABNY is obtaining MM and FX lines from more and more banks eventhough at times it is an uphill task given our perceived relationship with BCC. Ms. Lord mentioned NATWEST's positive feelings about BCC. To Mr. Palmer's comment regarding National Bank of Detroit's refusal to work with New York, Mr. Stevens stated that as he knows them he would take up the matter with them.

- Mr. Afridi informed of the joint committee of Messrs. Zafar, Shawish and Ms. Lord which is operating in the private banking area. Regular meetings of this group would help in expediting account solicitation from the consulates and the Missions in New York City. UN deposits of over $18 mn with FABNY at year end 1985 were highlighted and Mr. Palmer conveyed the positive impact FABNY has created on the UN by providing accurate information in a timely manner.

- Ms. Lord discussed the markets we should persue. According to her, small to medium sized companies are being targeted presently. Additionally, we should also go after larger corporations. Mr. Afridi opined that emphasis must be on intra group coordination.

- Ms. Lord wondered how they could market in the D.C. area by stating that New York would handle the international aspect of the transactions. Mr. vonBerg stated that to be successful they required their own operational staff. Mr. Afridi highlighted the fact that their volume of transactions did not justify such an arrangement and more importantly the investment New York has made in the operational area was based on the firm understanding that FABNY would be the cornerstone of such business.

- Mr. vonBerg mentioned that they process letters of credit and have their own Agency Arrangements, but no account relationships. These arrangements have existed for quite some time. Mr. Afridi requested Mr. vonBerg to provide New York with a list showing all such arrangements.

- Mr. Afridi suggested that no real progress was made in 1985 in terms of the group taking advantage of our presence at the ports of Albany, New York City, Baltimore and Norfolk. Mr. Stevens felt that this should be a priority area in 1986.

- With respect to item 5 on the International Committee Report of July 25, 1984, participants mentioned that it should be enlarged to include all locations. This was agreed to as sizeable ethnic markets existed in Baltimore, Fairfax and Virginia. Also, private banking in general to be considered as one of the group's objectives.

- Mr. Palmer discussed Washington's Nostro accounts which outnumber FABNY's and suggested that given our stated objectives, FABNY should be overseeing all such accounts. Ms. Lord opined that they would be only too happy to transfer the responsibility to FABNY. This shall be addressed further in a meeting of Mr. Palmer and Ms. Lord.

- Mr. Afridi offered all assistance to the customers of all group banks, including introduction letters and arrangements for providing assistance overseas.

- Mr. Siems replying to Mr. Afridi's query regarding the possibility of joint calls in their area said that tangible results would take at least eighteen months. Mr. Siems further added that only if recognition of that time frame exists should we go ahead. Mr. Afridi said that he would bring this to the attention of senior management of the holding Co. and requested Mr. Siems to provide New York with names of twenty companies in their area with sales of between $100 to $200 million.

- The manual on New York's correspondent relationships being updated shall be forwarded to all group banks in March 1986.

- Mr. Afridi enquired of Ms. Lord if Washington would like to utilize the information we buy from our country consultants. Ms. Lord responded in the affirmative and added they would share in the cost.

- Problems with SWIFT were mentioned by Messrs. vonBerg, Siems and Ms. Lord. (These were checked subsequently with operations, who informed that it was a system problem. An upgrade was ordered which would be loaded by mid February which should take care of the problems).

Page 4
MINUTES, January 23, 1986

- Ms. Lord mentioned of the confusion between BCCI, London and Washington regarding an account at London which they did not have on their books. (This was checked with BCCI, London, and was informed that Mr. Shawish had requested the same quite some time ago. Ms. Lord to contact Mr. Ansari in London in order for their zero balance accounts to be closed).

- Other: The following handouts were distributed. Their updated versions would be regularly forwarded:
  - list of correspondent bank due to accounts of FABNY
  - list of due from accounts of FABNY
  - country limits established by FABNY
  - list of arrangements with domestic and foreign banks of FABNY
  - list of First American Bank N.A.'s agency arrangements
  - list of FABW's due to accounts of correspondents banks
  - list of FABW's due from accounts
  - list of services offered by FABNY to correspondent banks

- Mr. Topley promised to forward each bank with a list of international charges in March 1986.

- The next meeting has been tentatively planned for April 14, 1986 at 11:00 a.m.

- Mr. Afridi concluded the meeting by stating that a clear understanding now exists amongst all group banks and hoped that 1986 would be a better year.

MS:qf

FA0371874

LAW OFFICES
COOTER & GELL
1201 NEW YORK AVENUE, N W
SUITE 900
WASHINGTON, D.C. 20005
TEL. (202) 289-5600
FAX (202) 371-1907

September 6, 1991

Via Messenger

The Hon. Henry B. Gonzalez
Chairman
U.S. House of Representatives
Committee on Banking, Finance
and Urban Affairs
2413 Rayburn Building
Washington, DC 20015

SEP

ng, Finance & Urban

Dear Chairman Gonzalez:

Mr. A. Vincent Scoffone of First American Bankshares has retained our firm to represent him in the pending BCCI investigation. Consequently, your letter of August 27, 1991, to Mr. Scoffone seeking answers to nine (9) rather detailed questions has been passed on to me.

We will be more than happy to answer those and any other questions once your Committee has granted Mr. Scoffone full Congressional immunity. If that is not done, then we will appear on September 11, 1991, at 9:30 a.m. and invoke the Fifth Amendment rights of Mr. Scoffone.

Our client has done nothing wrong. However, Messrs. Clifford and Altman are purportedly targets of several investigations. Mr. Jack Beddow, President and CEO of First American Bankshares was compelled to testify before a Manhattan grand jury after having been given immunity by the prosecution. It is apparent that Mr. Scoffone's lawyers should insist on immunity or deny the Committee access to Mr. Scoffone's knowledge.

Please have your staff attorneys contact me, Kenneth Michael Robinson, or Mary Madigan at (202) 289-5600 and discuss and finalize this matter. Once this is done we will cooperate fully.

Best regards,

Kenneth Michael Robinson

KMR:jt

cc: Barbara Shycoff, Esq.
A. Vincent Scoffone
(437.1873)wppjat123

LAW OFFICES
COOTER & GELL
1201 NEW YORK AVENUE, N.W.
SUITE 900
WASHINGTON, D.C. 20005
TEL: (202) 289-5600
FAX: (202) 371-1907

September 26, 1991

Via Messenger

The Honorable Henry B. Gonzalez
Chairman
U.S. House of Representatives
Committee on Banking, Finance
and Urban Affairs
2129 Rayburn Building
Washington, DC 20015

Dear Chairman Gonzalez:

We represent Mr. A. Vincent Scoffone in connection with his appearance before the House Committee on Banking, Finance, and Urban Affairs, scheduled for Friday, September 27, 1991 at 9:30 a.m.

Pursuant to your letters of August 27, 1991 and September 19, 1991, you have requested that Mr. Scoffone respond in writing to certain questions and issues concerning the Committee's investigation into the alleged secret ownership of First American Bankshares, Inc. by BCCI. Mr. Scoffone's responses are as follows:

Question No. 1. A brief overview of your background.

Response: Attached is a current biographical sketch of A. Vincent Scoffone.

Question No. 2. How you first became involved with First American Bankshares including the individuals that introduced you to representatives of that institution.

Response: As indicated in the biographical sketch submitted to Question 1, Mr. Scoffone was hired by First American Bankshares, Inc. ("FABI") formerly Financial General Bankshares, Inc. ("FGBI") on May 2, 1966. His first knowledge of FGBI came as a result of contact with the Treasurer of FGBI, Phillip L. Green, in the Fall of 1965. Mr. Green was teaching an accounting course at the American

The Honorable Henry B. Gonzalez
Chairman
U.S. House of Representatives
Committee on Banking, Finance
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September 26, 1991
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Institute of Banking and Mr. Scoffone was a student in his class. At that time, Mr. Scoffone was employed by Security National Bank in Falls Church, Virginia. Mr. Green offered him a position on FGBI's auditing staff which he accepted in April 1966. Mr. Scoffone has been employed continuously by FABI since that time.

Question No. 3. Describe your positions with, responsibilities to, and functions at, First American Bankshares. Please provide any relevant descriptive documents.

Response: As indicated in the biographical sketch submitted to Question 1, Mr. Scoffone has held various positions primarily of a financial nature over the twenty-five (25) plus years that he has been employed by FABI. In addition to his primary responsibility as a senior officer of FABI, he is also a senior officer and director of certain of FABI's subsidiary companies. At present, his primary function is to act as a senior financial officer of FABI in his capacity as Treasurer, managing the day-to-day financial operations of FABI, reporting to the Chief Financial Officer.

In addition to his responsibilities with FABI, in February 1983, he was elected Treasurer of First American Corporation ("FAC"). FAC is the parent corporation of FABI.

In April 1989, he was elected a director of Credit and Commerce American Holdings, N.V. ("CCAH") and a director of Credit and Commerce American Investment, B.V. ("CCAI"). CCAH and CCAI are indirect parent corporations of FABI.

Question No. 4. Explain your understanding of the relationship between Mr. Clifford and Mr. Altman, Clifford & Warnke, and BCCI. Did you ever have any knowledge of BCCI ownership or control of CCAH, CCAI or First

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American? Did BCCI ever influence the management practices of CCAH, CCAI or First American? Were you aware of BCCI loans to Mr. Clifford and Mr. Altman? Please explain.

Response: Mr. Clifford and Mr. Altman are partners in the law firm of Clifford & Warnke. Mr. Scoffone's knowledge of the relationship of Mr. Clifford and Mr. Altman, Clifford & Warnke and BCCI relates back to the takeover of FABI from 1978 to 1982 by a group of Middle Eastern investors. At that time, it was his understanding that Mr. Clifford and Mr. Altman, as attorneys of Clifford & Warnke, represented the Middle Eastern investors in the takeover. Mr. Scoffone understood from Messrs. Clifford and Altman and others that BCCI was the financial advisor for the Middle Eastern Investors. Subsequently, he learned that Clifford & Warnke also performed legal work for BCCI.

Mr. Scoffone did not have any knowledge of allegations of BCCI ownership or control of CCAH stock until January 1991, during the course of the Federal Reserve investigation. He is not aware of any management influence by BCCI over the management practices of CCAH or CCAI since his appointment as a director in 1989. Mr. Scoffone has no knowledge of whether BCCI ever influenced the management practices of FABI or FAC.

Mr. Scoffone was not aware of BCCI loans to Mr. Clifford and Mr. Altman until the first part of 1991. Prior to that time, he was not even aware that Mr. Clifford or Mr. Altman were shareholders of CCAH. At the time of the equity infusion into FABI in December 1990, he became aware that Mr. Clifford and Mr. Altman executed personal checks which, Mr. Scoffone was informed, represented a portion of the equity infusion. He learned at that time, for the first time, that Mr. Clifford and Mr. Altman were shareholders of CCAH and subsequently learned that the funds to

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Chairman
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purchase the shares were borrowed from BCCI. Mr. Scoffone had no knowledge of the details of the loans until disclosures were made in the media.

Question No. 5. A history your financial relationships including loans, stock ownership and compensation, in any capacity, with BCCI, ICIC, CCAH, CCAI and First American.

Response: Mr. Scoffone has never had any loans, stock ownership or received any compensation, in any capacity, from BCCI, ICIC, CCAH, CCAI, or FAC.

Mr. Scoffone has had no loans directly from FABI except certain loans from FABI's subsidiary banks for a primary residence, automobiles, home improvements, vacation property and/or credit card purchases. At present, Mr. Scoffone has a $70,000 home equity line from First American Bank, N.A., none of which is drawn and a $7,000 Visa credit card line from First American Bank of Virginia, the balance of which is paid monthly.

Mr. Scoffone has never owned any stock in FABI, however prior to the takeover of FGBI, he was the owner of less than 500 shares of FGBI stock and participated in an Employee Stock Ownership Plan which purchased FGBI stock. All stock was tendered at the time of the acquisition in April 1982.

Mr. Scoffone has been employed by FABI since 1966 and has received a salary, and certain fringe benefits including bonuses during that time period. His direct salary has ranged from a low of $6,500 in 1966 to a high of $121,000 in 1991. Bonus potential never exceeded 20% of direct salary. The last bonus paid was in March 1990 related to performance for the year 1989.

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Question No. 6. Please explain any actions performed by you, in any capacity, in facilitating the purchase of Financial General Bankshares, or CCAH by foreign investors.

Response: Mr. Scoffone's role in the acquisition of FGBI was in his capacity as an officer of FGBI and was limited to the preparation of financial information submitted to the Securities and Exchange Commission and the federal banking regulators. Mr. Scoffone had no involvement in the purchase of shares of CCAH by foreign investors.

Question No. 7. Please explain any actions performed by you, in any capacity, in assisting the purchase by First American of the National Bank of Georgia, Bank of Escambia, or any other financial institution.

Response: During the course of his twenty-five (25) years plus employment with FABI, Mr. Scoffone has had various roles in regard to the acquisition and/or disposition of companies including the National Bank of Georgia. His roles were generally limited to those of a financial nature including preparation, analysis and review of financial information. He took no direct action with regard to purchase of the Bank of Escambia.

Question No. 8. Please explain any services rendered by you, if any, in any capacity, in assisting Mr. Gaith Pharaon's purchase or sale of any bank or non-bank entity in the U. S. including Independence Bank and National Bank of Georgia.

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Chairman
U.S. House of Representatives
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Response: Mr. Scoffone has not rendered any services, in any capacity, to Mr. Gaith Pharaon.

Question No. 9. Please describe your role with regard to the BCCI Legal Defense Fund. Were you aware of First American's involvement in the defense Fund?

Response: Mr. Scoffone has never had any role with regard to the BCCI Legal Defense Fund. He never was nor is he now aware of FABI's involvement in the defense fund.

Mr. Scoffone is happy to cooperate with the Committee in its investigation and will address any further questions on these issues in his oral testimony.

Sincerely,

Dale A. Cooter

Mary E. Madigan

Mary E. Madigan

DAC/MEM:jt

A. Vincent Scoffone
Senior Vice President and Treasurer
First American Bankshares, Inc.
First American Bank Building
15th & H Streets, N.W.

Employment

| | |
|---|---|
| 5/2/66 to Present: | First American Bankshares, Inc. |
| 9/85 to Present: | Senior Vice President and Treasurer - Promotion included additional responsibilities for cash management, debt financing, risk management and credit insurance. |
| 12/74 to 9/85: | Vice President and Treasurer - Primarily the chief accounting officer of the Company. Responsible for all internal and external financial reporting, tax compliance and accounting control. |
| 5/69/ to 12/74: | Assistant Treasurer - Duties included assisting the Company's Treasurer in the areas of financial reporting and accounting control |
| 5/66 to 5/69: | Auditor - Duties included examining the Company's banks for compliance with applicable banking rules and regulations. |

9/63 to 5/66: Security National Bank, Falls Church, Virginia.

Management Trainee Final Position - Note Teller
First Position - Bank Runner

Education

| | |
|---|---|
| George Washington University: | BBA 1976<br>Major in Accounting |
| American Institute of Banking: | Pre-Standard Certificate<br>Standard Certificate 1968 |

Memberships

Financial Executives Institute
National Association of Accountant

Other Activities

Current: Director, St. Ann's Arlington Federal Credit Union
Treasurer, St. Ann's Arlington Federal Credit Union

Past: President, Stonewall Jackson School PTA
Treasurer, Stonewall Jackson School PTA
Executive Committee, Stonewall Jackson School PTA
Treasurer, McKinley School PTA
Executive Committee, McKinley School PTA
Vice Chairman, St. Ann Parish Advisory Board
Lector, St. Ann Church
Teacher, St. Ann Church School of Religion
Treasurer, Arlington County Church Bowling League
Coach, Arlington Soccer Association
Assistant Coach, Arlington Soccer Association
Assistant Coach, Junior CYO Boys Basketball

Personal

Married: Rita Helen Ross, October 31, 1964
Three Children: Michael Ross, July 24, 1965; Deborah Marie, October 23, 1969; David Vincent, April 17, 1974.

Born: Newark, New Jersey, January 21, 1943

Home Address: 871 N. Kensington Street, Arlington, Virginia 22205

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

WILLIAM TAYLOR
STAFF DIRECTOR
DIVISION OF BANKING
SUPERVISION AND REGULATION

August 9, 1991

The Honorable Charles McC. Mathias
Jones, Day, Reavis & Pogue
Metropolitan Square
1450 G Street, N.W.
Washington, D. C. 20005

Dear Senator,

This is in response to your letter of August 2. As you and the other directors of First American have been informed, the deficiencies noted in our recent inspection report need to be corrected promptly. I would emphasize, moreover, the critical importance of addressing managerial and leadership deficiencies, particularly given the growing concern about the impact on First American of continuing attention and disclosures related to the BCCI matter.

In that regard, it has been our position that a clean break with the past--in composition of management and the Board of Directors--is important to maintain public confidence and put First American on high ground. We continue to be of that view and would hope that the Board of Directors will act as a group to serve the best interests of the bank's depositors and the public at-large.

Sincerely,

RESTRICTED

JONES, DAY, REAVIS & POGUE

METROPOLITAN SQUARE
1450 G STREET N.W.
WASHINGTON, D.C. 20005-2088

ATLANTA AUSTIN BRUSSELS 'CAGO /ELAND .LMBUS DALLAS FRANKFURT GENEVA HONG KONG IRVINE LONDON LOS ANGELES NEW YORK PARIS PITTSBURGH RIYADH TAIPEI TOKYO

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TELEX: INTERNATIONAL 64363
CABLE ATTORNEYS WASHINGTON
FACSIMILE 202-737-2832
WRITER'S DIRECT NUMBER:

August 2, 1991

BY MESSENGER

Mr. William Taylor
Director of the Division of Banking
Supervision and Regulation
Board of Governors of the
Federal Reserve System
Federal Reserve Building
Room M3142
20th & C Streets, N.W.
Washington, D.C. 20551

Dear Mr. Taylor:

Attached is a letter that was delivered today to Mr. Clifford.

I hope for your support on the points made in the enclosed letter. It reflects views I have expressed to you in my earlier and regular communications with you. The most recent of the proposals advanced by Messrs. Clifford and Altman still does not, in my view, adequately address First American's problems. During the past week, there has been confusion with respect to your position on the question of Messrs. Clifford and Altman remaining as officers and directors of First American.

I look forward to speaking with you about these matters early next week.

Sincerely,

Charles McC. Mathias

Attachment

JONES, DAY, REAVIS & POGUE

ATLANTA IRVINE
AUSTIN LONDON
BRUSSELS LOS ANGELES
CHICAGO NEW YORK
CLEVELAND PARIS
COLUMBUS PITTSBURGH
DALLAS RIYADH
FRANKFURT TAIPEI
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FACSIMILE: 202-737-2832
WRITER'S DIRECT NUMBER:

August 2, 1991

BY MESSENGER

Honorable Clark Clifford
Chairman
First American Bankshares, Inc.
c/o Clifford & Warnke
815 Connecticut Avenue, N.W.
Washington, D.C. 20006

Dear Clark:

As you are aware, during the past six months the Special Oversight Committee has worked to respond to the major challenges confronting First American. These challenges include: (1) the capital needs, (2) the regulatory and enforcement problems and (3) the need for new leadership.

Much success has been realized in addressing First American's capital needs. In June, as a direct result of the efforts of the Special Oversight Committee, the Abu Dhabi investors provided a capital infusion of close to $40 million (which supplemented the roughly $80 million that they contributed a few months earlier) and purchased FAB's $81 million of outstanding senior notes (concurrently waiving the technical defaults thereunder). The capital infusion enabled us to bring the capital ratios at First American and each of its subsidiary banks to levels comfortably above the regulatory requirements.

The hope of the Special Oversight Committee had been that after resolving the Bank's capital needs by these steps, we could proceed to address promptly the enforcement and management problems facing the Bank. Subsequent developments have given new urgency to resolving these problems.

As you know, banks depend on confidence. The extraordinary publicity detailing the obvious historical links that you and Bob Altman have had to BCCI and the questions this has raised with respect to First American has seriously threatened the confidence of First American's customers and depositors. In recent weeks, there has been a worrisome outflow of deposits,

which continues each day. In addition, Jack and Paul report that many institutional depositors who have not yet withdrawn their deposits are expressing serious concern about their continued relationship with First American. Equally troubling is the reluctance of other financial institutions to do business with First American. This is having a major impact on the institution's operations. Coupled with a demoralized staff at all levels, the growing lack of confidence in First American is resulting in a daily erosion of the Bank's market position and financial strength.

The publicity regarding First American's alleged ties to BCCI will undoubtedly continue. In the absence of action that breaks the perceived link between BCCI and First American in a clear and visible way, this continued publicity will exacerbate First American's situation. The unfortunate fact is that you and Bob are perceived in the public eye as the link between BCCI -- your former client -- and First American. When you and Bob testify next month at televised Congressional hearings, the glare of publicity will be especially intense.

It is obvious to all observers that strong, prompt action must be taken to disassociate First American so far as possible from the ongoing investigations relating to BCCI. This action must include a change in leadership. I understand that this is the strongly-held view of most, if not all, of the other senior officials at First American, including the presidents and many directors of the subsidiary banks. The Abu Dhabi investors -- the Bank's single largest shareholder group and its demonstrated source of financial strength -- have also sought the departures of you and Bob.

In my letter of July 26, I renewed my proposal that the Special Oversight Committee assume a leading role to facilitate the needed changes -- including bringing in new management. This followed up on my suggestions to you as far back as March. Although I have received no response to my past suggestions, you and Bob have demonstrated by your actions your reluctance to accept my proposals.

I recognize that you are confident of your ultimate vindication and that you do not wish to withdraw until the various allegations are resolved. In other circumstances, I would support your perseverance. Here, however, we do not have the luxury of time to achieve the vindication you expect. First American's position continues to erode with the passage of time, and it is unrealistic to expect a resolution of the pending investigations in the near term. It has become painfully clear that your continued association with First American as the investigatory process unfolds will harm the institution.

Some time ago I recommended that you take the initiative and announce a plan for your and Bob's departure from First American. I believed then that an early departure would be in your interest as well as the Bank's interest. I regret you did not follow that course, which I suggested as a friend as well as a board member.

I hope that you will now change your decision and resign as an officer and director of First American Bankshares and all related corporations. Your indication today of your willingness to relinquish your position as First American Bankshares Chairman is a step in the right direction. The new management configuration you proposed may, however, be viewed skeptically and certainly does not provide the clean break that would best serve the institution's interests.

I believe that your and Bob Altman's prompt withdrawal is now urgently required, both for your own sake, for Bob Altman's sake, and most importantly for the sake of the institution you have served. I have not asked the other members of the Special Oversight Committee to review or join this letter. But I am confident from conversations with each member that all would agree that your withdrawal at this time would be in the best interests of First American. As difficult as this will be for you, it will express your care and concern for First American, its depositors and employees in a unique and impressive way.

Sincerely,

Mac

Charles McC. Mathias

cc: Robert A. Altman
Special Oversight Committee

JONES, DAY, REAVIS & POGUE

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AUSTIN LONDON
LOS ANGELES LOS ANGELES
CHICAGO NEW YORK
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WRITER'S DIRECT NUMBER:

July 26, 1991

BY MESSENGER

Honorable Clark Clifford
Chairman
First American Bankshares, Inc.
c/o Clifford & Warnke
815 Connecticut Avenue, N.W.
Washington, D.C. 20006

Dear Clark:

Based on our candid discussions during the past week, it appears there is a consensus among the directors that First American Bankshares should move forward on three fronts: (1) the exploration of options for a sale of the bank; (2) the establishment of a trust to hold the CCAH shares; and (3) the implementation of a change in senior management. It is very useful that we have agreed on these objectives. Equally important, though, is the manner in which we proceed to achieve them. I have some thoughts in this regard.

In a public corporation it would be common to delegate the negotiation of these three actions to the outside directors to guarantee both the fact and the perception of objectivity. Given the current membership of the Board of Directors of Bankshares this is not feasible, but the Special Oversight Committee offers a reasonable alternative because it is not perceived by any relevant constituency to have any potential conflict of interest. I believe a Board Resolution assigning this responsibility to the Oversight Committee should be passed promptly.

It is critical that action be taken quickly and decisively, since First American faces a deteriorating situation. Regarding the possible sale of the Bank, we are scheduling a meeting with Morgan Stanley next week. I believe they should be retained as early as possible. Regarding management, there clearly are eminently qualified, distinguished bankers -- acceptable to the Federal Reserve -- who would be willing to take on this assignment on very short notice. We cannot afford a search extending several months, but rather should effect the management change as soon as possible.

JONES, DAY, REAVIS & POGUE

Honorable Clark Clifford
July 26, 1991
Page 2

You and Bob Altman also have discussed the possibility of a rights offering to the CCAH shareholders. It appears clear, however, that the circumstances surrounding the ownership of the outstanding CCAH stock would presumably complicate any rights offering. I do not believe First American should assume the success of a rights offering for purposes of its capital planning.

Sincerely,

Mac

Charles McC. Mathias

Enclosure

cc: Paul G. Adams, III
Robert A. Altman
Jack W. Beddow
Charles Stauffacher

## BCCI/First American Political Influence Peddling?

It has been reported that BCCI has influenced the political process on an international scale. New evidence uncovered by the Committee indicates that the large American arm of BCCI, First American, loaned money to dozens of foreign government officials stationed in Washington, D.C. and New York. To date, the beneficiaries uncovered are mainly persons working at embassies from countries in the Middle East or persons from Middle East-related entities such as the Committee for the Preservation of Palestinian Heritage, League of Arab States, and the U.S.-Saudi Joint Economic Commission.

It was a strategy of BCCI to use First American in the D.C. metro area to gain access to foreign politicians. In New York, that task was left to the First American Bank of New York.

- In Washington, D.C. First American loaned money to many Middle East embassy employees from Ambassadors to chauffeurs, and their spouses and children.

- In Washington, D.C. First American loaned money to embassy employees that represented the following armed forces:
  Jordan Military
  Saudi National Guard
  Saudi Military
  Saudi Army
  United Arab Emirates Military
  Algerian Military
  Guatemala Military
  Lebanon Militia
  Kenya Military

- In New York First American sought out banking relationships with United Nations personnel and foreigners stationed in embassy offices in New York.

- First American employees even attended a reception in Honor of Iraqi Military in January 1988.

Amendment #22

**Points Against Reducing Compensation of RTC Employees**

**See Attached Letter from RTC/FDIC Chairman Seidman**

If the Annunzio language reducing the compensation of RTC employees is passed:

o The operations of the RTC will be severely disrupted. Employee morale will suffer. Many key personnel move back voluntarily to the FDIC. All current employees of the RTC are currently treated as employees of the FDIC, and the FDIC will reap a personnel windfall, as it cherry-picks the best RTC people. Other banking agencies will also be in a position to recruit RTC staff.

o The further recruitment of additional RTC staff will be more difficult. As a temporary agency, the compensation differential is an important off-set to the permanent job security of other federal agencies.

o The amendment is inequitable. Many RTC employees left private sector jobs or jobs with other banking agencies to accept these positions.

o This amendment is punitive and would appear to punish RTC employees for the failed policies of over a decade that lead to the savings and loan disaster.

**Resolution Trust Corporation**
Washington DC 20434

L. William Seidman
Chairman

October 1, 1991

Dear Mr. Wylie:

I want to take this opportunity to comment on several proposed amendments to the bill on restructuring the Resolution Trust Corporation. I believe that a number of these amendments would have deleterious effects on the RTC's ability to effectively manage and sell assets under our control.

One amendment would cap the number of employees of the RTC and the Oversight Board at the number of employees as of September 1, 1991. Capping the number of employees would have negative consequences for the RTC because it would impact the RTC's ability to operate efficiently and effectively in the disposition of assets. A cap would not account for operational needs for additional employees if more savings and loans and their assets are transferred to the RTC's control. A cap also negates management flexibility in adding staff to increase asset sales if management determines that increased staff would result in quicker sales at higher value.

Amendments are proposed which would prohibit both the RTC and the Oversight Board from providing employees with salary and non-wage fringe benefits in excess of those provided to Federal civil servants. The conversion would be inconsistent with the provisions within FIRREA, codified at 12 U.S.C. 1833(b), requiring the various financial institution regulatory agencies to "seek to maintain comparability regarding compensation and benefits." According to the Congress, the "intent [12 U.S.C. 1833(b)] in eliminating the [pay] restrictions of Title V [is] that the various Federal bank and regulatory agencies be able to address identifiable personnel...[and] to ensure the bank regulatory agencies do not compete with each other for these unique personnel." By having the flexibility to set compensation, the RTC has been able to attract and retain the personnel necessary to perform the RTC's mission and functions. If the RTC alone were to revert to the general pay schedule, this conversion could easily result in a massive exodus from the RTC, particularly in critical positions. Such a departure of employees would substantially disrupt the RTC's operations and further delay the sale of assets.

Finally, an amendment would require the RTC and the Oversight Board to include in their semi-annual report to the Congress, the names and the amount of compensation paid to employees in excess of the rate of the Executive Level V Federal employees. This amendment would pose no problem since Federal employees salaries are currently public information.

I urge you to seriously weigh the potential negative impacts these amendments would have on the RTC's ability to deal effectively with the savings and loan clean up as you consider legislation to restructure the RTC.

With best wishes.

Sincerely,

L. Wm. Seidman

L. William Seidman
Chairman

Honorable Chalmers P. Wylie
Ranking Minority Member
Subcommittee on Financial Institutions
Supervision, Regulation and Insurance
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D.C. 20515

0388R

JONES, DAY, REAVIS & POGUE

ATLANTA AUSTIN BRUSSELS CHICAGO CLEVELAND COLUMBUS DALLAS FRANKFURT GENEVA HONG KONG IRVINE LONDON LOS ANGELES NEW YORK PARIS PITTSBURGH RIYADH TAIPEI TOKYO

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WRITER'S DIRECT NUMBER

September 6, 1991

Mr. Kelsay Meek
Staff Director
House Banking Committee
2129 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Meek:

On August 31, 1991, the House Banking Committee invited the current directors of First American Bankshares to appear before the Committee on September 11, 1991. The directors had, of course, been aware that Messrs. Clifford and Altman would be testifying on that date since the Committee's announcement to that effect in mid-summer. However, the directors were not notified by the Committee that their appearance at this hearing would be required as well until the invitations were faxed to them last Wednesday.

The majority of the current directors, several of whom are also officers of First American Bankshares, are actively engaged in the full-time management of the bank. With events at the company and its insured subsidiaries requiring full-time attention, preparation for the participation in these potentially broad-ranging hearings by September 11th has not been feasible.

However, the current directors certainly desire to be of assistance to the Committee and its inquiry. Accordingly, they would be willing to testify before the Committee at a mutually convenient time.

On their behalf, we therefore request that the invitations for their respective appearances on September 11 be continued until a mutually agreeable date. This would give them adequate time fully to inform themselves as to the facts and events of concern to the Committee.

With appreciation in advance for your sympathetic consideration of this request, I am

Sincerely yours,

Jonathan C. Rose

Jonathan C. Rose

P.S. Please feel free to call me at any time. My direct line is 202-879-3888.

# The Dark Side of International Banking

## Recent scandals show that no one may be watching

il Mondo

By Enzo D'Antona and Giuseppe Sarcina

Non-existent controls, ignored warnings, permissive laws: Criminality has been given the green light. And new European Community (EC) directives to prevent money-laundering risk no longer being of any use.

The reason is that a no man's land now cuts Europe in two. This axis was unthinkable until recently. On one side is London, Europe's oldest and most solid financial city, and on the other is Luxembourg, with its banking-secrecy laws and reputation as a traditional financial haven.

The comfortable distinction between the "opaque" in banking—the financial havens—and the "transparent" banking systems that exist elsewhere no longer holds. A virus is in circulation, and any banking institution can be struck by it, especially as long as control mechanisms continue to follow different procedures from country to country and banks are regulated on the basis of sometimes-contrasting laws.

In June, after four years of investigations, Manhattan District Attorney Robert Morgenthau indicted Bank of Credit and Commerce International (BCCI) founder Aga Hassan Abedi and the bank's former chief operating officer, Swaleh Naqvi. Both are Pakistanis. According to the charges, BCCI has operated as a kind of parallel system since it was founded in 1972. It has engaged in money-laundering; clandestine financing, allegedly for the CIA; selling arms to the Iranian government; and opening coded accounts to which the likes of Abu Nidal, the head of the most extremist faction of the Palestinian terrorists, had access. All this happened amid the apathy of British monetary authorities, starting with Chancellor of the Exchequer John Major, before he assumed his current post of prime minister in 1990.

The failure of the British banking-control mechanisms is the circumstance that is seen as most astonishing at EC headquarters in Brussels. Few imagined that the banking swindle of the century, as the BCCI affair has been labeled by the Anglo-Saxon press, could occur outside of the restricted circle of traditional financial havens and cause the City of London—Europe's premier financial market—to quake. In the wake of the scandal, the telephone was almost always busy at the Bank of England. And for the bank's 48,500 British account holders, as well as their fellow account holders throughout the world, it was not easy to get in touch with a Bank of England official who could provide any information. All that one could get was a strong invitation to be patient and advice not to give too much credence to British newspapers, which have been saying that at least 10 years will be needed to unravel the BCCI muddle.

Was BCCI an isolated case? Or was it the first obvious sign of a change in the British banking system and, thus, in international banking? Under former British Prime Minister Margaret Thatcher, says Socialist European Parliament Member Enzo Mattina, "deregulation did not involve only social policies but also finance and the banks .... In other times, [alarms] about BCCI would not have fallen on deaf ears. There would have been a thorough investigation, and we would not have come to this point."

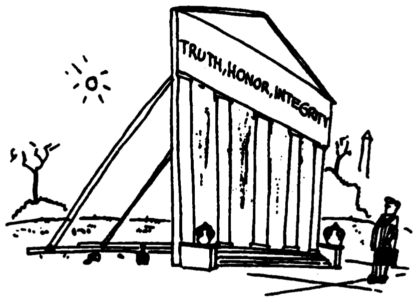
Bewilderment about banking-control mechanisms in Europe is now emerging. In fact, every bank is supposed to respect the regulations set up by its country of origin. But some countries have, as is said, a "loose mesh." Among these is Luxembourg, the other side of the axis on which the BCCI story developed.

In the grand duchy, legal conditions are ideal for developing and carrying out illegal trafficking. New companies are not required to reveal the nationalities and places of residence of their shareholders and administrators, for example. Nor are they required to present their balance sheets. At the end of May, however, Luxembourgers had to accept the EC directive on money-laundering.

Luxembourg is not alone. Even the bankers of Switzerland, the traditional stronghold against the fall of banking secrecy, have had to accept a compromise. Having abolished the mechanism that allowed trustees and lawyers to open accounts for unidentified clients, Switzerland has sanctioned the banks' obligation to denounce money that they suspect comes from illegal sources.

Yet, despite these regulations, the Swiss system is still

*From the independent newsmagazine "Il Mondo" of Milan.*




Schwadron/Punch/London

under accusation. Swiss magistrate Michele Rusca, who recently presided over a major money-laundering trial, says that 5 percent of deposits in Swiss banks could be from illegal sources. "But the countries that are really at risk," he says, "are those whose governments are compliant. Cases such as that of BCCI occur where the links of the chain are weak."

Where could another BCCI case explode? Rusca has no doubts. The risk is in Eastern Europe: Hungary, Romania, Poland—countries that want to attract investment. They could find dirty money to launder or clients aiming to use their banks for the most indiscriminate operations.

The problems of bank surveillance are posing themselves on an international scale. What, for example, do two recent financial scandals—the Nomura Securities scandal in Japan and the one involving the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL)—have in common? "They are two cases that demonstrate the danger of situations where economic power is concentrated in a few hands," says Paolo Bernasconi, an expert on economic crime. In Japan, the shock of the scandals was very powerful: In the course of a few days, powerful institutions such as Nomura and the country's three other large brokerage companies, Daiwa, Yamaichi, and Nikko, appeared to international officials and local account holders to have been in business with the local mafia and at the service of a few industrial groups and government ministries. The BNL Atlanta affair is not as clear, although investigations have added new and important details. According to Gian Maria Sartoretti, who runs BNL's Financial Institutions Department, the head of the Atlanta branch had set up a network of illegal activities involving suspicious Bulgarian, Turkish, and English companies to traffic arms and drugs.

Why are scandals such as that of Nomura, BNL Atlanta, and BCCI coming to light only now? One reason is that international détente seems to have favored a settling of accounts, so to speak: A general cleanup has been set in motion that has overrun the old pacts sealed by countries' secret services—especially those of the U.S.—and subversive organizations; guerrilla groups, such as Nicaragua's Contras; and governments, such as that of Iran. Moreover, the lack of uniformity in international controls has allowed the infiltration of organized criminals and terrorists into international finance.

In the end, what lessons can be drawn from the BCCI scandal? Obviously, the links between the banking world and secret or criminal organizations are growing closer. But there is more: The BCCI affair marks the passage of the criminal economy into a new phase of trafficking. ❑

# Around the World's Financial Havens

Dagens Næringsliv

By Tom Marthinsen

Sheltering one's capital in tax havens can quickly end in money lost these days. Shady, even criminal, people are thriving in many banking and financial sectors; so are drug money and other black-market funds. Panama was once considered a safe place to put funds. But when problems arose for General Manuel Noriega, money began flowing out of Panamanian banks to Barbados, the Netherlands Antilles, the Cayman Islands, Montserrat, and many other places. After the U.S. invasion in 1989, Panama had trouble getting back on its feet financially because, among other reasons, Noriega's bank contacts were not the only ones tainted by cocaine money. There are indications that, under current President Guillermo Endara, Panama has its share of cocaine-infected banks.

One also finds snakes in other tax paradises:

**THE CARIBBEAN** Two years ago, possibly the largest tax-haven scandal of them all swept over Montserrat, a small British colony in the Caribbean. In 1989, 347 banks were licensed to operate in Montserrat: the number is now down to 40. This drastic development came as a result of the British governor general's order to the local police in July, 1989, to raid the Montserrat-based First American Bank. Scotland Yard's fraud department sent its experts, while the British government publicly warned against using the offshore banks on the island. The British government also commissioned Rodney Gallagher of the accounting firm

*From the financial "Dagens Naeringsliv" of Oslo.*

Coopers and Lybrand to submit a detailed report on the banking sectors of Montserrat, Anguilla, the British Virgin Islands, the Turks and Caicos Islands, and the Cayman Islands.

Gallagher concluded that the many cases of fraud on Montserrat were due to a lack of regulations and the island's close connections with U.S.-based financial people of doubtful reputation. Responsibility for the offshore-banking sector was transferred from the local minister of finance to the British governor. Gallagher now works for the British High Commission in Barbados and is responsible for bringing order to the British-Caribbean tax havens.

Most of the tax havens in the Caribbean are former or present British colonies, including the Bahamas, Bermuda, and the Cayman Islands. The Caymans, in fact, are the most successful tax haven of them all. Just a one-hour flight from Miami, these islands have the world's greatest density of fax machines and, on paper, the world's fifth-largest banking sector, after the U.S., Japan, Great Britain, and France.

**"Shady, even criminal, people are thriving in many financial sectors."**

In contrast to many other places, the Caymans have kept their house tolerably clean of unsavory activities. Today, acknowledging their dependence on the U.S., the Caymans have an agreement that puts confidentiality aside when the American authorities believe that drug money has found its way to the banks there.

The banking sector in the British Virgin Islands is not highly developed, on the other hand, but there is already concern about meddling by the Colombian drug cartels. With only a small police force, one boat to control a gigantic archipelago, and one plane operated jointly with the police of the neighboring colony Turks and Caicos, many fear that the islands' attempt to become a serious tax haven may be strangled by the Colombian mafia's long tentacles.

There has been no scandal yet, but the British Virgin Islands' extremely liberal laws for setting up trust companies have resulted in suspicions that, among other things, the funds of the late Philippine President Ferdinand Marcos and money from a large American robbery have been channeled through the islands' companies.

Other Caribbean havens include the Turks and Caicos Islands, whose chief minister was arrested for drug trafficking in 1985; the Bahamas, which long ago put its faith in its flag of convenience for shippers and its tax advantages; and Anguilla, another British colony that has thus far managed to avoid scandals.

**THE PACIFIC** The tax havens of the Pacific are more of an unknown quantity. Japanese, American, and Australian capital is now being lured to the region's mini-states.

In 1971, the British introduced liberal regulations in Vanuatu (then called the New Hebrides). When the islands became independent in 1980, Vanuatu hoped to become another, bigger Bahamas: There were no income taxes, foreign-exchange controls, inheritance taxes, or taxes on profits from securities trading.

Elsewhere in the Pacific, the Cook Islands, which are in a so-called free association with New Zealand, have attracted more than 500 foreign companies, while the kingdom of Tonga lures capital with liberal regulations and watertight bank accounts. Fiji is also attempting to attract capital, partly by rebuilding the confidence that was lost earlier this year after the military interfered with government operations.

Attempts to attract foreign capital are also under way in the Indian Ocean. There, it is South African capital that is being wooed. Mauritius has long had liberal laws and secrecy provisions for financial information.

**EUROPE** In Luxembourg, people have been nervous about the establishment of a common European Community (EC) financial market because, in theory, this could destroy the country's financial strength. In practice, however, the opposite has occurred: Luxembourg has become stronger as a tax haven inside the EC. Removal of regulations in other EC countries has simply made it easier for rich people to channel money to Luxembourg. It has established itself as an alternative to Switzerland for not-so-rich people from Belgium, the Netherlands, Germany, and France.

Switzerland itself has long worried about trends in the EC. The increased competition from other tax havens has been blamed for the recent falling off of capital coming into the country. So has the fact Swiss banking-secrecy laws are no longer as strict as they used to be.

The smaller European havens are worth mentioning: Liechtenstein, Jersey, Guernsey, the Isle of Man, and Gibraltar. Less known to many are Malta, Cyprus, Madeira, Ireland, Andorra, Monaco, and, of all places, Hungary.

The Isle of Man and Gibraltar are both suffering from political crises and from the aftereffects of the 1988 financial crisis. Newcomers Ireland and Malta have had quick success. In Dublin, 150 companies are newly registered, resulting in 700 much-needed jobs. And in Malta, 300 companies were set up in the country's first year as a tax haven. The companies are from Great Britain, Hong Kong, Italy, the Soviet Union, and Arab countries. None of the world's largest insurance companies or banks has established itself in Malta thus far. But the possibility that Europe's newest tax haven will attract attention is absolutely at hand. ❑

ATLANTA CONSTITUTION, September 27, 1991

# ...NG WISH

## ...is testifies before Congress

Rick McKay/Washington Bureau

...father, ...equiring man- ...frail Miss

Bergalis, who became infected with the disease through her dentist, traveled from her hometown of Fort Pierce, Fla., to testify on Capitol Hill. See article, Page A3.

## ...ant fever for early ticket-seekers

...kidnapped" his 14-year-old son ...from school and showed up ...t 1 p.m. so they could be the first ...e when about 15,000 tickets go on ...at noon today.

...Ir. Wages, who confessed he also ...tly trek... ... restaurant bill- ...d to see an image of Jesus Christ ...e pasta, said this latest stunt ...'t require a great leap of faith. ...much as I believe that Jesus ...st is coming back, I believe that ...Atlanta Braves are going to the ...ld Series," he said.

...Mike Witt, second in line, played ...ficial sargeant-at-arms. Keeping a list of "who was here first" on a crumpled piece of paper, he promised to maintain order in case the two dozen fans in line Thursday night grew into an unruly mob by this morning.

About 9:30 p.m., security guards ordered the ticket-seekers to another spot, fearing they would create a hazard for fans leaving after last night's 8-0 loss to the Reds. Braves employees handed out complimentary pennants to soothe any disgruntlement.

"We just did this on the spur of the moment," said an employee. "This is Braves pennant fever. It's like Christmas."

# BCCI tied to change in state law

## House speaker's trip linked to bank lobbyist

By Peter Mantius
Staff writer

National Bank of Georgia officials may have bought a change in Georgia banking law that led to the $220 million sale of the bank in 1987, new evidence suggests.

Among the highlights:

▶ A former NBG officer said late Thursday that NBG paid the expenses of Georgia House Speaker Tom Murphy for a weekend trip to Fort Lauderdale, Fla., in January 1987 arranged by J. R. "Jake" Cullen, a lobbyist promoting the change in the banking law sought by NBG and the Bank of Credit and Commerce International.

▶ NBC News will report tonight that a "T. Murphy," believed to be the Georgia House speaker, was a guest in a $300-a-night Florida resort just prior to the introduction of the legislation.

▶ State Rep. Wesley Dunn of McDonough, chairman of the House Banking Committee, said Mr. Cullen both invited him on the Fort Lauderdale trip and asked him to handle the NBG legislation in the Georgia House.

Mr. Murphy, reached earlier in the day, denied that he had ever known any lobbyists for BCCI. "I don't know what they [NBC] are talking about. I've been to Fort Lauderdale and West Palm Beach many times. I go down every year for spring training."

No explicit link exists between the trip and the passage of legislation that cleared the way for the merger of NBG with First American Bankshares Inc.

Two months ago, the Federal Reserve Board charged that both NBG and First American had been secretly and illegally owned by BCCI, which stands accused of bribery, money-laundering and worldwide fraud.

At the time of the trip, it was not against the law for legislators to accept gifts from lobbyists, nor was there any requirement to report such gifts. The laws have since been tightened.

Please see BANK, A7 ▶

## ...ground ...sus shows ...in 1990


## Party opportunities abound as black college teams meet

The Atlanta Journal / The Atlanta Constitution NATION ••••• Friday, September 27, 1991 A7

# Bank: FBI probing banking law lobbying

▶ Continued from A1

The bill, which passed easily, was introduced in the state Senate on Jan. 29, 1987. It passed overwhelmingly March 5, and the bank deal went through later that year.

In Atlanta the FBI is investigating the reported $1.25 million lobbying effort — headed by Mr. Cullens and lawyer Charles M. Jones of Hinesville — that paved the way for NBG's acquisition.

Walter G. Wilkins, a former vice president of NBG, said in an interview Thursday that he paid the hotel bills of Mr. Murphy and Mr. Dunn, and possibly others, for their Jan. 16-19, 1987, stay at the Marriott Beach Resort in Fort Lauderdale.

Mr. Wilkins said he was later reimbursed by NBG, under orders given by Guy Freeman, then a senior NBG officer who later climbed to chief executive of the bank.

"I simply did as I was directed by Guy Freeman," Mr. Wilkins said. "I was on the trip but I

**Tom Murphy,** speaker of Georgia's House, denies knowing any BCCI lobbyists. "I don't know what they (NBC) are talking about," he said.

was not present at any of the functions."

Mr. Freeman was not available for comment Thursday night.

Mr. Dunn said Thursday that he doesn't recall any conversations during the 1987 trip about NBG's interest in banking legislation. Asked when he first heard about NBG's interest in the bill, he said, "I suppose when Jake asked me to handle the bill.

"It takes more than a trip to Florida to influence my vote on something," Mr. Dunn added.

Documents obtained from the NBC News program "Expose" support Mr. Wilkins's statements. The program, which airs tonight at 8:30, plans to focus on BCCI and its alleged front man in Georgia, Ghaith R. Pharaon.

The supporting documentation, which NBC says is in the hands of federal investigators, includes a copy of a Feb. 11, 1987, check for $14,344.36 made out by NBG to Mr. Wilkins. A copy of the accompanying check stub says: "Expenses, Ft. Lauderdale trip, J.R. Cullens & Associates, Friday Jan. 16, 1987-Monday, Jan. 19, 1987."

The check total exactly matches an itemized expense report submitted by Mr. Wilkins. The items include $7,861.51 for hotel rooms, $5,220 for limousine service, liquor and parking, and $616 for a fishing charter.

A copy of the hotel bill in Mr. Wilkins's name, also obtained from NBC, shows that Mr. Murphy's room cost $300 a night. The bill also includes charges of "T Murphy, W Dunn, Cullens, GE Bagby and Waldrep."

Ken Waldrep, a former Georgia legislator from Forsyth, confirmed Thursday that he joined Mr. Murphy, Mr. Dunn and Mr. Cullen on the trip.

"Mr. Murphy invited me to go. I assumed he was paying," Mr. Waldrep said.

## Famous wild bear is killed by hunter

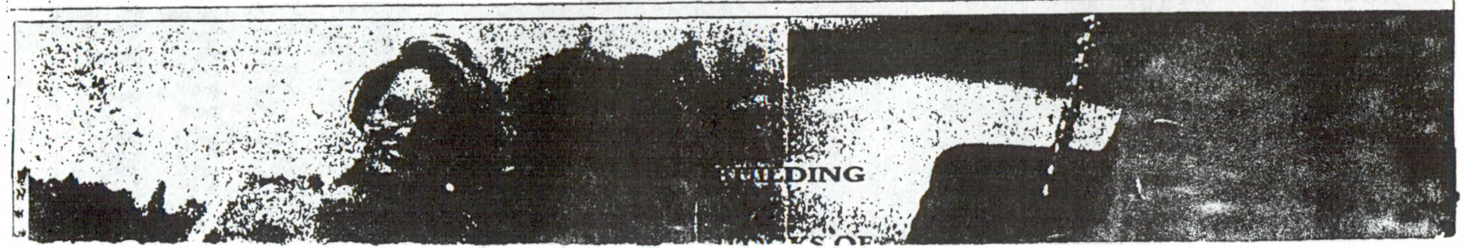
The Associated Press

DULUTH, Minn. — A radio-collared wild black bear whose forages and hibernations in northeastern Minnesota made her a research subject and television wildlife star has been killed by a hunter.

Terri, a 6-year-old female, had helped the pioneering work of bear researcher Lynn Rogers. The bear was shot Sept. 14 near Ely by a hunter who apparently did not see her collar.

It was the first of Mr. Rogers's subjects to be shot in the three years.





MINUTES OF THE MEETING OF U.S. COORDINATION COMMITTEE

Held on April 24, 1985 in New York

The following attended:

Employees of First American Bank of New York

1. Mr. Aijaz Afridi
2. Mr. Raja Allahdad
3. Mr. Amjad Awan
4. Mr. Khusro Karamat Elley
5. Mr. Tariq Jamil
6. Mr. Shafiqur Rehman Khan
7. Mr. Sultan Mohiuddin
8. Mr. Dilip Munshi
9. Mr. Hasan Paruey
10. Mr. Musrat Rizvi

Employee of National Bank of Georgia

Mr. Louis Saubolle, Mr. S.M. Shafi and Mr. Sani Ahmed could not attend the meeting because of their other engagements.

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## Introduction

It was the consensus of the meeting that the challenge facing the BCC Group in the U.S. was a unique one, since they had hitherto been mostly successful in developing countries. They were now embarked on establishing an equally successful business in the most advanced and most competitive country in the world.

The U.S. Market was described as information driven and information prone. As such, there would be a need for us to be uptodate in our knowledge of this market and be fully informed about customer needs and trends. This would, therefore, require a very well planned and calculated approach to Marketing.

The time had come for us to be clear as to how this growth would take place.

- Would this be through the acquisition of Banks?
- Should we open lots of agencies in the various states?
- Should we contemplate opening more Representative offices and if so, where?

It was agreed that whatever the problems that were to be faced and the potential solutions we would arrive at we had as good a chance of success as anywhere else because we truly believed BCC was a mission, that our greatest asset were people and that our success arose out of the faith and dedication with which these people pursued their mission.

## Purpose

The meeting was described as a very timely one in which we had an obligation to succeed and where success could only be achieved if we went about the task collectively. It was also felt that it is through meetings of this nature that information will flow, assistance will be provided, and the collective view on the U.S. operation will be presented to the C.S.O. so that it may assist them in carving out the policies on growth, expansion, credits and personnel matters.

After discussion it was agreed that the purpose of this Meeting was:

1. To inform each other of the nature of their operations

2. To demonstrate how we are working together

3. To make recommendations on how we could do more business together.

**Individual Presentations:**

To update each member of the operations of different units it was agreed to discuss briefly the size and volume of each location's business.

Mr. Tariq Jamil presented the following report on NBG: (As on 31/12/84)

**National Bank of Georgia**

| | | |
|---|---|---|
| Deposits | - | 996 Million |
| Assets | - | 1303 Million |
| Profits | - | 10.4 Million |
| Advances | - | 742 Million |

**Nature of Business**

A. Retail and Consumer.

B. Mid-Size Market (Commercial) Profitable and Relationship Oriented.

C. Trustee Business.

D. Bankers to Government Agencies.

E. Small to Mid-Size Corporate Sector.

F. Wholesale banking division established to address large corporate sector.

To increase the profitability by growth the following actions have been taken:

A. Expansion - obtaining charter.

B. Added more people to marketing.

C. Decentralizing marketing.

D. Expenses control.

He mentioned that consumer business is more profitable than commercial business.

BCC Canada

Mr. Allahdad mentioned that it is difficult to operate on the same lines as NBG has been doing because of the difference in operational situation and credit policies for BCC Canada and that of NBG. BCC Canada cannot enter into:

A. Consumer Loans

B. Commercial Loans

C. Credit Card Operations

He was also not happy with the capability of BCC computer facilities to meet the needs of the consumer in the local market place. He mentioned that till 1981, BCC had no acceptability in the local market and the situation has changed totally now and their CD's have an excellent listing. Their customer deposits are around $200 million, out of which 55% are corporate funds and 45% from the retail sector. The loan portfolio is around $90 million. Mr. Tariq Jamil discussed with him the possibilities of customer CD's for smaller accounts on the lines of NBG and requested Mr. Raja to explore the probability in the future. Mr Allahdad mentioned that the reason of low profitability is lesser thrust in the consumer market as compared to more resourceful banks and mainly depending on corporate sector that offers very thin margins on the deals and deposits. In the interest of profitability the capitalisation costs have been kept very low that are negating the efforts to expand.

New York Agency

Mr. Rehman aprised the members of the present situation of the Agency and the process through which it has passed during the last one year. Because of its inability to open customer deposit accounts much could not be done in this sector and most of the time was consumed in setting up the office and systems so that it could be ready to accommodate all business that has to come.

In March 1985, after the passage of the New York State Omnibus Banking Bill, the Agency has been authorized to accept all kinds of non-resident/non U.S. citizen deposits of all denominations. The initial work has been completed on the printing of account opening forms, etc..., and after the concentrated marketing efforts positive results as expected. On the business side there has been an increase at an accelerated pace and the take off situation is very near.

**Miami**

Mr. Sakhia informed that the Miami Agency stands in third position among the foreign agencies in Miami. The Caribbean Region has contributed 13.5% to the growth of total deposits to the Group during 1984. BCC has all the acceptance of the local financial community. Mr. Sakhia suggested that they should have a joint approach in handling the U.S. business and that a consolidated and unified presentation should be made to C.S.O. to understand our operational problems and that a coordination team should be formed to collect information on the movement of the existing clients and the prospective clients.

**Latin American Region**

Mr. Musarrat Rizvi informed that their region has generated $200 million of deposits out of which $80 million has been placed in other BCC units. The projected figure for 1985 is $800 million, out of which $150 million are expected to be placed with other offices of BCC during 1985. Their operation in Peru and Argentina will start this year and it is expected that the Latin American Region will give a profit of $10 million in 1985. He assured that every possible effort will be done to assist all the centers in their growth.

**San Francisco**

Because of the nature of operations, San Francisco Agency had mainly been catering to the Chinese businesses. Mr. Mohiuddin recently travelled in the Middle East and was successful in generating substantial amounts of deposits that has been placed with the Agency. He was confident that all efforts will continue to increase the size and effectiveness of their office.

**Los Angeles**

Mr. Munshi informed that his market is predominantly the ethnic community for retail deposits. Like San Francisco, they have to depend on deposits from Hong Kong, Canada and Middle East. He had poor response from most American companies that mainly deal with our U.S. Banks and he consequently concentrated on inter-bank money market. He was of the opinion that in the interest of profitability the loan portfolio is to be increased. In order to have an entry in the High Net Worth Individuals sector, they are planning to open an office in Beverly Hills very shortly.

First American Bank of New York

Mr. Elley gave a background of the history of FAB Group, especially New York, describing the role of the investors and how the emphasis was on developing New York. He described that in addition to providing a range of full services from New York, the main focus would be on creating a powerful International Division and very strong Money Market and F.X. Operations, since these are two areas which had not been available in the FAB Group. He was glad to report that the Bank in New York was fully operational and offerred in the International Area, Correspondent Banking Services, Trade Finance and Private Banking. Additionally, they were doing Domestic Banking through a network of 44 Branches, which were engaged in all the retail services from Mortgages to Auto Loans. A Corporate Division looked after the Middle Market and the larger companies, while the Treasury area was now very active in Money Market and Foreign Exchange Markets. FABNY was also a member of CHIPS and SWIFT, and had started handling the accounts of a number of BCC Branches.

Partly as a result of a number of acquisitions made in the previous year, the Bank had now achieved a size of $800 million in assets and had a capital of $100 million. It was expected that by the end of 1985, Assets would reach $1 billion in New York.

They were presently facing the following problems:

1. New York City overheads were high and the dilemma was how to be in profit from year one.

2. Because of its acquisition programme, the Bank was currently a combination of 3 Banks, and a lot of Management time was being spent to form them into one Bank.

3. Sophisticated automation and systems had been put in place. This initially created teething problems, which were now almost resolved, but they had nevertheless taken up considerable time.

4. They were having to work very hard in creating a joint personality of the Senior Management.

Washington Representative Office

Mr. Amjad Awan was requested to provide timely information on domestic and international deals. Mr. Jamil described Washington as a seat of decision-making on major policies on trade and banking business. Mr. Awan assured that they are gearing up to meet the increasing requirements and expectations of assistance of BCC Group.

**Conclusion**

The next venue of the meeting was decided to be in Miami on June 1, and specific items for the Agenda to be advised to Mr. Shafiq Ur Rehman for circulation. Mr. Rehman was requested to prepare, with the assistance of Mr. Elley, the Minutes of the present meeting.

1st AMERICAN
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MEMORANDUM

TO: Robert Altman
President
First American Bankshares

FROM: Kayid Shawish
Vice President
First American Bank, N.A.

DATE: April 8, 1985

SUB: Bank of Credit and Commerce International - Miami Office

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Upon your suggestion, I visited Bank of Credit and Commerce International Miami (BCCI-Miami), on thursday March 21, 1985. I met with Abdur R. Sakhia, Raghu R. Bahadur, Romit Basu, Hamid A. Khan, Hassan Parvez, Magsood Akhtar, Saad Shafi, Furrukh Sani, M. H. Rehman, Patrick Lynch, and Safed U. Sakrani. The purpose of this visit was to exchange ideas and finds ways in which First American and BCCI can work more closely together in areas that can be beneficial to both. The following subjects were discussed:

1. BCC VISA Travellers checks: BCC is issuing VISA Travellers checks in U.S.$ and other foreign currencies. Mr. Sakhia offered us 2/3 of 1% commission on the sale of their travellers checks. Currently we are selling American Express Travellers checks, our commission 1/3 of 1%. Acceptance of VISA Travellers checks is increasing world wide. First American Bank should look into the possibility of issuing the VISA Travellers checks and thus benefit from the full 1% commission in addition to the float.

2. Broker deposits: BCCI is looking into this area. They claim there are many activities in this area in Miami. the broker calls around for rate quotation to place the funds; if the bank is paying 9 3/16% for the funds. The instrument or C.D. will be booked at the rate of 9% in the name of the client and the 3/16% will be paid directly to the broker as a commission. Mr. Romit Basu was asking if we are interested in this type of business and if it is permissable. The deposit will be coming through brokers from U.S. residence, and Foreign Nationals.

I was informed by Mr. Jerry Kennedy, Senior Vice President of First American Bank, N.A. that we currently have similar arrangement with Merrill Lynch, except we issue "Negotiable Bearer Instrument". We deliver the instruments to Merrill Lynch, and thus have no direct contact with the owner of the funds.

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1st AMERICAN
FIRST AMERICAN BANK N.A.

MEMORANDUM

Robert Altman
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April 8, 1985

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3. More cooperation with BCCI: they expressed their interest in referring business to us and thus we reciprocate.

- If an American company or contractor doing business in foreign countries is in need to borrow or post a bond, we can lend in the U.S. and have BCCI issue the guarantee through their office in the foreign country.

- They can provide us with country study and economic and political analysis services of foreign countries.

- First American Bank of New York is currently opening correspondent relationships and exchanging test keys with many banks throughout the world. Since we are just starting, we do not know the volume of business we are going to have in these countries; and if First American Bank of New York opens accounts and exchange test keys with the regional offices of BCCI, we will be able to service most of the world through probably 3 accounts (Miami, London, and Hong Kong) and obviously it would be less expensive to the bank. As we expand our International business, we can selectively open new accounts with other banks.

4. Commodity Credit Corporation (CCC) Export Credit Guarantee Program (GSM-102): This program provides protection to U.S. exporters or their assignees-which must be banks or other financial institutions in the United States-against payment defaults by foreign banks when purchases of U.S. agricultural commodities are made on a deferred payment basis.

Under the program the U.S. exporter pays a fee and receives a payment guarantee from CCC. Usually, the exporter will assign the proceeds that may be due under the payment guarantee to a U.S. bank financing the export sale. The foreign buyer can purchase on credit and the exporter receives payment immediately after shipment. The U.S. bank financing the sale is protected by CCC's guarantee in the event the foreign bank defaults under a letter of credit or related obligation. The CCC guarantees 98% of the principals and 8% of the interest for a maximum period of 36 months.

The difficult part under this program is obtaining the business, because it will require strong connection and travel to the selected countries; other than that, the program is easy to handle and can generate large volume of international loans to the bank. It can be very profitable because the rates are negotiated directly with the foreign countries.

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1st American
FIRST AMERICAN BANK, N.A.

MEMORANDUM

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Exposure under this program is the 2% of total loans plus interest in excess of 8% (CCC guarantees up to 8% of the interest).

BCCI is actively seeking loans under this program and they are selective. I was informed by Mr. Sakhia that BCCI have 2 loans on their books to Jamaica. The first one was made last year, $17 million total and the second one is recent for 10 million. Repayments are semi-annual of principal and interest over 3 years. The interest rate on the first loan is prime plus 7/8% floating.

Mr. Sakhia offered us to participate in $5 million or $10 million at the rate of 1/2% below prime if we take the participation at 100% (our exposure will be 2%); and 1% below prime if we participate at 98% which is the guaranteed portion, and assume no risk.

If this type of international lending is desirable to First American, I would suggest the following:

1. Select the country and the maximum amount we like to lend.

2. Participate with BCCI in the negotiation with the country we selected. If BCCI is negotiating for $20 million and we are interested in $10 million, then the negotiation will be for $30 million. We can share in the expenses and benefit from their contact. The negotiation will be for a larger portion of the total available guarantee, which can be more desirable to the foreign country.

In other words, we pre-establish our guidelines regarding the country, the amount, and the return, and at the same time lessen our expenses and acquire the contact and expertise we need.

CONFIDENTIAL
FA0372048

CABLE CLINCY
TELEX 248588 CLEY

TELEPHONE
(202) 828-4200

*Clifford & Warnke*
*Attorneys and Counsellors at Law*
*815 Connecticut Avenue*
*Washington, D.C. 20006*

January 7, 1991

J. Virgil Mattingly, Jr.
General Counsel
Legal Division
Federal Reserve System
20th Street & Constitution Ave., N.W.
Washington, D.C. 20551

Re: Credit and Commerce
American Holdings, N.V.
("CCAH")

Dear Mr. Mattingly:

In response to your request, we have prepared a year-by-year summary of the shareholdings of CCAH from 1982 to 1990 and submit it herewith on a confidential basis.

Should you need any further information, please let us know.

Sincerely,

J. Griffin Lesher

J. Griffin Lesher

cc: Robert A. Altman
Baldwin B. Tuttle

## CCAH Shareholdings 1982-1990

### 1982 Acquisition

| | Tender Offer (3/2/82) | % | Merger (Class A) (8/28/82) | % | Year-end (12/31/82) | % |
|---|---|---|---|---|---|---|
| Kamal I. Adham | 19,050 shs. | 19.05% | 19,050 shs. | 16.32% | 19,050 shs. | 16.32% |
| Abdullah Darwaish (for Mohd. bin Zaied al Nahyan)1/ | 13,720 shs. | 13.72% | 13,720 shs. | 11.76% | 13,720 shs. | 11.76% |
| Faisal Saud al Fulaij | 7,180 shs. | 7.18% | 10,015 shs. | 8.58% | 10,015 shs. | 8.58% |
| Abu Dhabi Inv. Authority | 8,240 shs. | 8.24% | 8,240 shs. | 7.06% | 8,240 shs. | 7.06% |
| Stock Holding Co. | 8,240 shs. | 8.24% | 8,240 shs. | 7.06% | 8,240 shs. | 7.06% |
| A.R. Khalil | 8,240 shs. | 8.24% | 9,907 shs. | 8.49% | 9,907 shs. | 8.49% |
| Crescent Holding Co. | 8,240 shs. | 8.24% | 8,240 shs. | 7.06% | 8,240 shs. | 7.06% |
| Mashriq Holding Co. | 7,660 shs. | 7.66% | 7,660 shs. | 6.56% | 7,660 shs. | 6.56% |
| Humaid bin Rashid al Naomi | 7,070 shs. | 7.07% | 7,070 shs. | 6.06% | 7,070 shs. | 6.06% |
| A.M. Shorafa | 6,480 shs. | 6.48% | 7,591 shs. | 6.51% | 7,591 shs. | 6.51% |
| Mohd. Hussain Quabazard | 2,940 shs. | 2.94% | 2,940 shs. | 2.52% | 2,940 shs. | 2.52% |
| Gulf Inv. Real Estate Co. | 1,470 shs. | 1.47% | 1,470 shs. | 1.26% | 1,470 shs. | 1.26% |
| Real Estate Dev. Co. | 880 shs. | 0.88% | 880 shs. | 0.75% | 880 shs. | 0.75% |
| El Sayed El Gohari | 590 shs. | 0.59% | 590 shs. | 0.51% | 590 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | N/A | N/A | 11,087 shs. | 9.50% | 11,087 shs. | 9.50% |
| | 100,000 shs. | 100.00% | 116,700 shs. | 100.00% | 116,700 shs. | 100.00% |

## 1982 Notes

Abdullah Darwaish acted as personal representative for Sheikh Mohammad bin Zaied al-Nahyan, a minor, until consummation of the FGB acquisition in mid-1982. Following the transaction, Sheikh Mohammad assumed legal title to his CCAH shares.

1983

| | Rights Offering (12/22/83) | | Year-end (12/31/83) | |
|---|---|---|---|---|
| Kamal I. Adham[1] | 30,319 shs. | 19.42% | 26,319 shs. | 16.86% |
| Adham Corp. Ltd.[1] | N/A | N/A | 4,000 shs. | 2.56% |
| Zaied bin Sultan al Nahyan[1] | 18,350 shs. | 11.76% | 18,350 shs. | 11.76% |
| Faisal Saud al Fulaij | 13,393 shs. | 8.58% | 13,393 shs. | 8.58% |
| Abu Dhabi Inv. Authority | 11,020 shs. | 7.06% | 11,020 shs. | 7.06% |
| Stock Holding Co. | 11,020 shs. | 7.06% | 11,020 shs. | 7.06% |
| A.R. Khalil | 13,250 shs. | 8.49% | 13,250 shs. | 8.49% |
| Crescent Holding Co.[1] | 12,745 shs. | 8.16% | 12,745 shs. | 8.16% |
| Mashriq Holding Co. | 10,243 shs. | 6.56% | 10,243 shs. | 6.56% |
| Humaid bin Rashid al Naomi[1] | 9,082 shs. | 5.82% | 9,082 shs. | 5.82% |
| A.M. Shorafa | 10,154 shs. | 6.51% | 10,154 shs. | 6.51% |
| Real Estate Dev. Co.[1] | 880 shs. | 0.57% | 880 shs. | 0.57% |
| El Sayed El Gohari | 791 shs. | 0.51% | 791 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | 14,828 shs. | 9.50% | 14,828 shs. | 9.50% |
| | 156,075 shs. | 100.00% | 156,075 shs. | 100.00% |

1983 Notes

1/ On December 18, 1983, Sheikh Kamal Adham acquired 2,940 shares from Mr. Mohammed Hussain Qabazard and 1,470 shares from Gulf Investment Real Estate Co. Pursuant to the 1983 Rights Offering, Sheikh Adham purchased the new right shares available with respect to these two holdings (992 and 496 shares respectively). Further with respect to the Rights Offering and his pre-existing 19,050 shares, Sheikh Adham purchased 3,076 new right shares, and waived preemptive rights as to 1,351 shares which were acquired by Crescent Holding Co. In addition, he acquired 295 new right shares waived by Real Estate Development Co.

2/ On December 31, 1983, Sheikh Kamal Adham transferred 4,000 shares to Adham Corporation Ltd., a privately held family holding company.

3/ On December 16, 1983, Sheikh Mohammad bin Zaied al-Nahyan transferred his 13,720 shares to his father, Sheikh Zaied bin Sultan al-Nahyan, who thereafter acquired the 4,630 new right shares available with respect to this holding during the 1983 Rights Offering.

4/ During the 1983 Rights Offering, in addition to acquiring 1,351 new right shares waived by Sheikh Kamal Adham (see Note 1), Crescent Holding Co. acquired 374 new right shares waived by Sheikh Humaid bin Rashid al Naemi.

5/ See Note 4.

6/ See Note 1.

1984

| | Year-end (12/31/84) | |
|---|---|---|
| Kamal I. Adham | 26,319 shs. | 16.86% |
| Adham Corporation Ltd. | 4,000 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 18,350 shs. | 11.76% |
| Faisal Saud al Fulaij | 13,393 shs. | 8.58% |
| Abu Dhabi Investment Authority | 11,020 shs. | 7.06% |
| Stock Holding Co. | 11,020 shs. | 7.06% |
| A.R. Khalil | 13,250 shs. | 8.49% |
| Crescent Holding Co. | 12,745 shs. | 8.16% |
| Mashriq Holding Co. | 10,243 shs. | 6.56% |
| Humaid bin Rashid al Naomi | 9,082 shs. | 5.82% |
| A.M. Shorafa | 10,154 shs. | 6.51% |
| Real Estate Dev. Co. | 880 shs. | 0.57% |
| Sayed Jawhary1/ | 791 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | 14,828 shs. | 9.50% |
| | 156,075 shs. | 100.00% |

1984 Notes

1/ At the instructions of Mr. El Sayed El Gohari, his 791 shares were reregistered in his modified legal name -- Mr. Sayed Jawhary. This change of name was effected on July 20, 1984.

**1985**

| | Year-end (12/31/85) | |
|---|---|---|
| Kamal I. Adham | 26,319 shs. | 16.86% |
| Adham Corporation Ltd. | 4,000 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 18,350 shs. | 11.76% |
| Faisal Saud al Fulaij[1/] | 14,273 shs. | 9.15% |
| Abu Dhabi Investment Authority | 11,020 shs. | 7.06% |
| Stock Holding Co. | 11,020 shs. | 7.06% |
| A.R. Khalil | 13,250 shs. | 8.49% |
| Crescent Holding Co. | 12,745 shs. | 8.16% |
| Mashriq Holding Co. | 10,243 shs. | 6.56% |
| Humaid bin Rashid al Naomi | 9,082 shs. | 5.82% |
| A.M. Shorafa | 10,154 shs. | 6.51% |
| Sayed Jawhary | 791 shs. | .51% |
| Khalifa bin Zaied al Nahyan | 14,828 shs. | 9.50% |
| | 156,075 shs. | 100.00% |

## 1985 Notes

1/ On February 16, 1985, Real Estate Development Co. sold its 880 shares to Mr. Faisal Saud al Fulaij.

1986

| | Rights Offering (7/25/86) | | Year-end (12/31/86) | |
|---|---|---|---|---|
| Kamal I. Adham1/ | 28,244 shs. | 12.63% | 28,244 shs. | 12.63% |
| Adham Corp. Ltd. | 5,735 shs. | 2.56% | 5,735 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 26,309 shs. | 11.76% | 26,309 shs. | 11.76% |
| Faisal Saud al Fulaij | 20,463 shs. | 9.14% | 20,463 shs. | 9.14% |
| Abu Dhabi Inv. Authority | 15,799 shs. | 7.06% | 15,799 shs. | 7.06% |
| A.R. Khalil1/ | 13,250 shs. | 5.92% | 13,250 shs. | 5.92% |
| Mashriq Holding Co.1/ | 21,660 shs. | 9.68% | 21,660 shs. | 9.68% |
| Humaid bin Rashid al Naomi | 13,021 shs. | 5.82% | 13,021 shs. | 5.82% |
| A.M. Shorafa1/ | 22,250 shs. | 9.94% | 22,250 shs. | 9.94% |
| Sayed Jawhary | 1,134 shs. | 0.51% | 1,134 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | 21,259 shs. | 9.50% | 21,259 shs. | 9.50% |
| Mohammad M. Hammoud1/ | 5,747 shs. | 2.57% | 5,747 shs. | 2.57% |
| Khalid bin Salim bin Mahfouz:1/ | | | | |
| - Windrush Ltd. | 4,431 shs. | 1.98% | 4,431 shs. | 1.98% |
| - Taynton Inv. Ltd. | 4,431 shs. | 1.98% | 4,431 shs. | 1.98% |
| - Sarsden Holdings Ltd. | 4,430 shs. | 1.98% | 4,430 shs. | 1.98% |
| - Shipton Inv. Ltd. | 4,430 shs. | 1.98% | 4,430 shs. | 1.98% |
| - Bleddington Inv. Ltd. | 4,430 shs. | 1.98% | 4,430 shs. | 1.98% |
| Clark M. Clifford1/ | 4,495 shs. | 2.00% | 4,495 shs. | 2.00% |
| Robert A. Altman1/ | 2,247 shs. | 1.01% | 2,247 shs. | 1.01% |
| | 223,765 shs. | 100.00% | 223,765 shs. | 100.00% |

1986 Notes

1/ On July 23, 1986, Sheikh Kamal Adham sold 2,200 shares to Stock Holding Co., 2,800 shares to Crescent Holding Co., and 1,619 shares to H.E. Ali Mohammed Sherafa. Pursuant to the 1986 Rights Offering, Sheikh Adham acquired 8,544 new right shares to which he was entitled.

2/ Pursuant to the Rights Offering, Mr. A.R. Khalil waived as to 5,747 new right shares which were acquired by Mr. Mohammed M. Hammoud.

3/ On July 24, 1986, Mashriq Holding Co. acquired 13,220 shares owned by Stock Holding Co. and 15,545 shares owned by Crescent Holding Co. In addition, Mashriq Holding Co. sold 3,746 shares to H.E. Ali Mohammed Sherafa. Pursuant to the Rights Offering, Mashriq waived as to 6,742 new right shares which were acquired by Clark M. Clifford (4,495 shares) and Robert A. Altman (2,247 shares). Following the Rights Offering, Mashriq sold 22,152 shares to five limited holding companies owned by the Sheikh Khalid bin Salem bin Mahfouz family.

4/ See Note 3.

5/ See Note 2.

6/ See Note 3.

7/ See Note 3.

8/ See Note 3.

1987

| | Rights Offering (8/14/87) | | Year-end (12/31/87) | |
|---|---|---|---|---|
| Kamal I. Adham | 34,218 shs. | 12.63% | 34,218 shs. | 12.63% |
| Adham Corp. Ltd. | 6,948 shs. | 2.56% | 6,948 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 31,874 shs. | 11.76% | 31,874 shs. | 11.76% |
| Faisal Saud al Fulaij | 24,791 shs. | 9.14% | 24,791 shs. | 9.14% |
| Abu Dhabi Inv. Authority | 19,141 shs. | 7.06% | 19,141 shs. | 7.06% |
| A.R. Khalil[1] | 13,250 shs. | 4.89% | 13,250 shs. | 4.89% |
| Mashriq Holding Co. | 26,241 shs. | 9.68% | 26,241 shs. | 9.68% |
| Humaid bin Rashid al Naomi | 15,775 shs. | 5.82% | 15,775 shs. | 5.82% |
| A.M. Shorafa | 26,956 shs. | 9.94% | 26,956 shs. | 9.94% |
| Sayed Jawhary | 1,374 shs. | 0.51% | 1,374 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | 25,756 shs. | 9.50% | 25,756 shs. | 9.50% |
| Mohammad M. Hammoud[1] | 9,766 shs. | 3.60% | 9,766 shs. | 3.60% |
| Khalid bin Salim bin Mahfouz: | | | | |
| - Windrush Ltd. | 5,368 shs. | 1.98% | 5,368 shs. | 1.98% |
| - Taynton Inv. Ltd. | 5,368 shs. | 1.98% | 5,368 shs. | 1.98% |
| - Sarsden Holdings Ltd. | 5,367 shs. | 1.98% | 5,367 shs. | 1.98% |
| - Shipton Inv. Ltd. | 5,367 shs. | 1.98% | 5,367 shs. | 1.98% |
| - Bleddington Inv. Ltd. | 5,367 shs. | 1.98% | 5,367 shs. | 1.98% |
| Clark M. Clifford | 5,446 shs. | 2.00% | 5,446 shs. | 2.00% |
| Robert A. Altman | 2,722 shs. | 1.01% | 2,722 shs. | 1.01% |
| | 271,095 shs. | 100.00% | 271,095 shs. | 100.00% |

**1987 Notes**

1/ Pursuant to the 1987 Rights Offering, Mr. A.R. Khalil waived as to 2,803 new right shares which were acquired by Mr. Mohammad M. Hammoud.

2/ See Note 1.

**1988**

| | Year-end (12/31/88) | |
|---|---|---|
| Kamal I. Adham | 34,218 shs. | 12.63% |
| Adham Corporation Ltd. | 6,948 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 31,874 shs. | 11.76% |
| Faisal Saud al Fulaij | 24,791 shs. | 9.14% |
| Abu Dhabi Investment Authority | 19,141 shs. | 7.06% |
| A.R. Khalil | 13,250 shs. | 4.89% |
| Mashriq Holding Co. | 26,241 shs. | 9.68% |
| Humaid bin Rashid al Naomi | 15,775 shs. | 5.82% |
| A.M. Shorafa | 26,956 shs. | 9.94% |
| Sayed Jawhary | 1,374 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | 25,756 shs. | 9.50% |
| Mohammad M. Hammoud1/ | 14,566 shs. | 5.37% |
| Khalid bin Salim bin Mahfouz:1/ - Burford Investments Ltd. | 26,837 shs. | 9.90% |
| Clark M. Clifford1/ | 2,246 shs. | 0.83% |
| Robert A. Altman1/ | 1,122 shs. | 0.41% |
| | 271,095 shs. | 100.00% |

1988 Notes

1/ On March 1, 1988, Mr. Mohammed M. Hammoud acquired 3,200 shares from Clark M. Clifford and 1,600 shares from Robert A. Altman.

2/ On August 29, 1988, the 26,837 shares held by the five limited holding companies owned by the Sheikh Khalid bin Salim bin Mahfous family were transferred to Burford Investments Ltd., a limited holding company solely owned by Sheikh Khalid.

3/ See Note 1.

4/ See Note 1.

**1989**

| | Rights Offering (7/18/89) | | Year-end (12/31/89) | |
|---|---|---|---|---|
| Kamal I. Adham | 36,493 shs. | 12.62% | 36,493 shs. | 12.62% |
| Adham Corp. Ltd. | 7,410 shs. | 2.56% | 7,410 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 33,994 shs. | 11.76% | 33,994 shs. | 11.76% |
| Faisal Saud al Fulaij | 26,439 shs. | 9.14% | 26,439 shs. | 9.14% |
| Abu Dhabi Inv. Authority[1] | 19,141 shs. | 6.62% | 19,141 shs. | 6.62% |
| A.R. Khalil[1] | 13,250 shs. | 4.59% | 13,250 shs. | 4.59% |
| Mashriq Holding Co. | 27,986 shs. | 9.68% | 27,986 shs. | 9.68% |
| Humaid bin Rashid al Naomi | 16,824 shs. | 5.82% | 16,824 shs. | 5.82% |
| A.M. Shorafa | 28,748 shs. | 9.94% | 28,748 shs. | 9.94% |
| Sayed Jawhary | 1,465 shs. | 0.51% | 1,465 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan[1] | 28,741 shs. | 9.94% | 28,741 shs. | 9.94% |
| Mohammad M. Hammoud[1] | 18,200 shs. | 6.30% | 18,200 shs. | 6.30% |
| Khalid bin Salim bin Mahfouz:[1] - Burford Inv. Ltd. | 26,837 shs. | 9.28% | 26,837 shs. | 9.28% |
| Clark M. Clifford | 2,395 shs. | 0.83% | 2,395 shs. | 0.83% |
| Robert A. Altman | 1,197 shs. | 0.41% | 1,197 shs. | 0.41% |
| | 289,120 shs. | 100.00% | 289,120 shs. | 100.00% |

## 1989 Notes

1/ Pursuant to the 1989 Rights Offering, the Abu Dhabi Investment Authority exercised its preemptive rights as to 1,273 new right shares, and thereafter sold such shares to Sheikh Khalifa bin Zaied al Nahyan.

2/ Pursuant to the Rights Offering, Mr. A.R. Khalil waived as to 881 new right shares which were acquired by Mr. Mohammad M. Hammoud.

3/ See Note 1.

4/ See Notes 2 and 5.

5/ Pursuant to the Rights Offering, Burford Investments Ltd. (Sheikh Khalid bin Salim bin Mahfouz) waived as to 1,785 new right shares which were acquired by Mr. Mohammad M. Hammoud.

1990

| | Year-end (12/31/90) | |
|---|---|---|
| Kamal I. Adham | 36,493 shs. | 12.62% |
| Adham Corporation Ltd. | 7,410 shs. | 2.56% |
| Zaied bin Sultan al Nahyan | 33,994 shs. | 11.76% |
| Faisal Saud al Fulaij | 26,439 shs. | 9.14% |
| Abu Dhabi Investment Authority | 19,141 shs. | 6.62% |
| A.R. Khalil | 13,250 shs. | 4.59% |
| Mashriq Holding Co. | 27,986 shs. | 9.68% |
| Humaid bin Rashid al Naomi | 16,824 shs. | 5.82% |
| A.M. Shorafa | 28,748 shs. | 9.94% |
| Sayed Jawhary | 1,465 shs. | 0.51% |
| Khalifa bin Zaied al Nahyan | 28,741 shs. | 9.94% |
| Mohammad M. Hammoud[1] | 18,200 shs. | 6.30% |
| Khalid bin Salim bin Mahfouz: - Burford Inv. Ltd. | 26,837 shs. | 9.28% |
| Clark M. Clifford | 2,395 shs. | 0.83% |
| Robert A. Altman | 1,197 shs. | 0.41% |
| | 289,120 shs. | 100.00% |

## 1990 Notes

1/ Mr. Mohammad M. Hammoud died in March, 1990. CCAH has requested and is awaiting formal legal documentation from his estate confirming the legal heirs to his CCAH shares.

## U.S. HOUSE OF REPRESENTATIVES

**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

**ONE HUNDRED SECOND CONGRESS**

**2129 RAYBURN HOUSE OFFICE BUILDING**
**WASHINGTON, DC 20515**



**FOR IMMEDIATE RELEASE**
**September 27, 1991**

**Contact: Mike McGarry**
**(202) 226-7850**

**WASHINGTON, D.C.-- At a hearing today of the House Banking Committee on the scandal plagued Bank of Credit and Commerce International (BCCI), U.S. Rep. Chalmers P. Wylie (R-OH) urged the committee to continue its investigation of BCCI and its banking activities in the United States.**

**"I still fear that the Committee has only scratched the surface of BCCI's activities in the U.S.," Wylie said. "For example, representatives of the Federal Reserve have told me that the two most crucial sets of documents are the Clifford & Warnke privileged documents and the documents found in the BCCI Washington office. To date, the Committee has not received access to these documents."**

**"As late as last night, startling new documentary evidence was uncovered by the Committee which further suggests control of First American by BCCI," Wylie said. "Moreover, the testimony we have heard so far raises as many questions as answers to me. I think the Committee needs to hear a wide variety of additional witnesses in order to complete our understanding of BCCI and its relationship with First American."**

**"Finally, I believe that the committee must determine whether BCCI exercised improper political influence," Wylie said. "We must get to the bottom of charges concerning BCCI's political influence in Washington and determine if they represent smoke or fire. If political wrongdoing exists it is our duty to shed light on these activities regardless of party affiliation."**

**# # #**

JONES, DAY, REAVIS & POGUE

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WRITER'S DIRECT NUMBER:

October 18, 1991

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

OCT

Dear Mr. Chairman:

Enclosed with this letter are the errata sheets for my testimony as well as that portion of the testimony provided by Messrs. Beddow, Adams and Stauffaucher.

I wish to note again that the fairness and courtesy with which you conducted the Banking Committee's hearing of the Directors of First American Bankshares was much appreciated. We recognize that the members of the Committee are anxious to have the full story and that some may not realize the complexity of this situation or the difficulty in ascertaining all of the facts. As you continue your investigation, things should improve and the picture will become more clear. In the meantime, I am sure you can appreciate that it is impossible for witnesses who testify under oath to speculate on facts about which their knowledge is not complete or confirmed.

There are, of course, lessons to be learned from this complex and frustrating course of events. If there is any way that I can be helpful in translating those lessons into legislation to prevent repetition, I am more than willing to do so. It was thoughtful of Representative Kanjorski to suggest that my views would be of possible use to the Committee, and I have been in touch with him regarding this matter.

Sincerely,

Charles McC. Mathias/KA

Charles McC. Mathias

cc: Jack W. Beddow
Charles Stauffaucher
Paul G. Adams, III

O

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